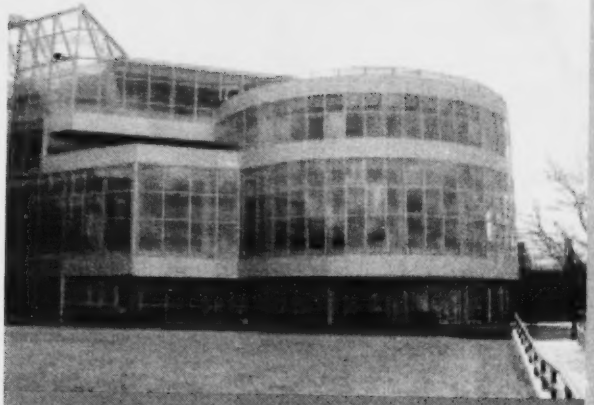
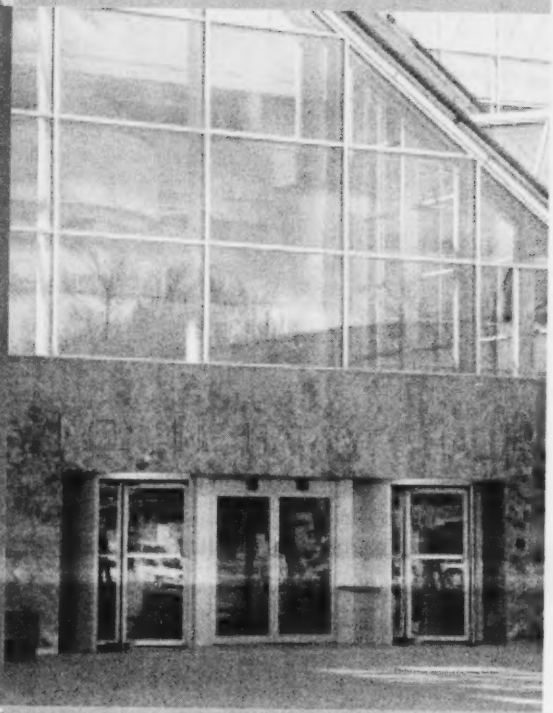
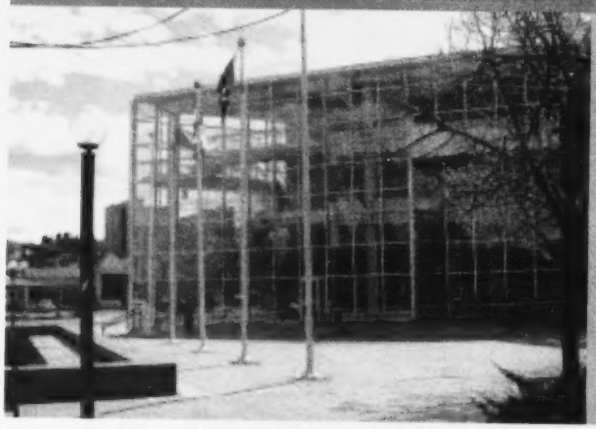


Medicine Hat
The Gas City

City of Medicine Hat

2002 Annual Report





Medicine Hat
Alberta, Canada

2008-04693/

Medicine Hat
The Gas City

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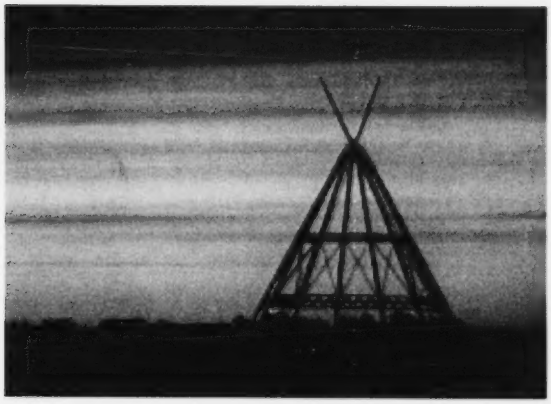

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Medicine Hat City Council

Photo Courtesy of Impact Photography

(left to right)

Top Row:
Alderman Julie Friesen, Mayor Garth Vallely, Alderman Cathy Smith

Middle Row:
Alderman John Hamill, Alderman Harv Speers, Alderman Bill Cocks, Alderman Wayne Craven

Bottom Row:
Alderman Robert Dumanowski, Alderman Duane Roset

Our Mission is to Exceed Expectations in the Value of our Services

MEDICINE HAT: "A COMMUNITY OF CHOICE"

Medicine Hat is located in southeastern Alberta, approximately three hours from Calgary, thirty minutes from Saskatchewan and one hour from the United States border. It is the economic hub for southeastern Alberta and southwestern Saskatchewan. Medicine Hat's near central location on the Trans Canada Highway between Regina, Saskatchewan and Calgary, Alberta combined with the southwest connection (Crowsnest Highway #3) to the United States and west coast, provides safe and efficient movement of people and resources. Regional air service, international rail service and high-speed telecommunications infrastructure enable the citizens and businesses of the community to "connect" with anyone, anywhere in the world.

The Medicine Hat Advantage

- Medicine Hat is the only city in North America to own its own Gas and Electric production and distribution facilities. The economic benefits from these utilities are shared with both utility customers and taxpayers, resulting in the lowest utility rates in Canada. It also provides incentives for industrial growth.
- The financial position of the City of Medicine Hat is extremely strong. Our municipal taxes are the lowest in Canada. Medicine Hat does not have a municipal business tax like many other Canadian communities.
- Our city is known as the 'Oasis in the Prairies' with extensive parks and natural spaces and an outstanding network of walking paths and trails.
- Medicine Hat residents enjoy a high quality of life with warm summers, mild winters, and excellent recreation and cultural facilities.
- Medicine Hat's workforce is highly skilled and capable of meeting the challenges businesses face in a competitive marketplace.
- All sizes of City-owned commercial and industrial land is available for expansion or new plant construction.

For more information on Medicine Hat, please visit our website at www.medicinehat.ca

"Tucked in a corner of Alberta is a small city in a sweet spot. Medicine Hat is next to Saskatchewan, not far from the U.S. border and, at this moment, about as close to economic heaven as it gets in Canada. The place is booming!"

CBC Venture
December 8, 2002

MESSAGE FROM THE MAYOR

Photo courtesy of Impact Photography

Garth Vallely
Mayor, Medicine Hat

As mayor of this fine City, I find it very gratifying to work with members of Council who are sincerely dedicated to serving citizens who truly care about our City. Our accomplishments in 2002 are proof that we all have one thing in common: we want the best for this community and we will work together to get it.

Medicine Hat proudly hosted the 2002 Winter Games and 3,000 volunteers worked together to make sure it would be the overwhelming success it was. We were left a legacy of nearly half a million dollars in facility upgrades and equipment. We also showed that we are ready to host another major event in our community.

We have received the results of an Economic Development Strategic Assessment for Medicine Hat that provides focus for the development of an economic strategy for the regions. Medicine Hat has formed a partnership with its neighbours through the Economic Development Alliance (Southeast Alberta) to jointly pursue economic development opportunities for southeastern Alberta.

A wonderful example of what we can achieve by working together is the partnership that involves the Medicine Hat Catholic Board of Education, Medicine Hat School District #76, the Family YMCA, the Southridge Community Association, and the City of Medicine Hat formed to make the South Ridge Recreation Facility a reality. This recreation facility will add to the quality of life the citizens of this community already enjoy.

I am very pleased to report that we are making great progress towards providing more affordable housing for our community. We have citizens and groups within this community who have provided the leadership and commitment needed to successfully increase affordable housing in Medicine Hat. With the assistance of federal/provincial funding, we have been able to fund ten initiatives, one of them being the Salvation Army Support Centre (homeless shelter). We have also partnered with McGill University to develop design options for affordable housing in our community.

I bring these examples to your attention (and there are many more in the Annual Report) because they show that we can achieve so much more when we work together. Our citizens and our natural resources give us the wealth of energy needed to achieve prosperity... to be the best that we can be... to be a community of choice. This makes Medicine Hat a wonderful place to live, to work, to raise a family, and to retire.

Garth Vallely

MESSAGE FROM THE CHIEF ADMINISTRATIVE OFFICER

Photo courtesy of Impact Photography

Gerry Labas
Chief Administrative Officer

I am pleased to issue the 2002 Annual Report for the City of Medicine Hat. The Annual Report highlights the significant accomplishments and events of 2002. It also provides a summary of the financial condition for the City of Medicine Hat. Finally, it outlines what the City plans to achieve over the next two years.

It is a tribute to our staff that we had great success in achieving our goals for 2002. We continued to invest substantially in staff training and development so we will always be ready to meet the challenges with commitment and confidence. A cornerstone of that training is a program that represents a strong commitment to leadership development throughout the organization. A recent survey to assess employee satisfaction indicates that measurable progress has been made towards the overall 95% satisfaction rating.

The City remains in excellent fiscal condition. Not only did municipal operations deliver services within approved budgets but our tax-supported operations ended the year with a $2.043 million positive variance. Utilities Services contributed a dividend of $22.894 million to support municipal operations, which results in lower municipal taxes for our residents. Medicine Hat continues to have the lowest combined municipal property tax and utility charges in Canada. Our overall debt is 36% of the limit set by the Alberta Government.

There were several major initiatives underway in 2002 designed to better serve the citizens of Medicine Hat. These included infrastructure projects in either the planning or construction stage, such as The Esplanade a "best in class" Arts & Heritage Centre, the South Ridge Recreation Facility, the third Emergency Services Station, and the Allowance Avenue Overpass Twinning Project. Several strategies were used to inform the public and to have community consultations regarding these initiatives and the other major City issues. Very often there were project enhancements as a result of the wisdom and contribution made by its citizens.

During 2002 we were also successful in making improvements to our business processes, some of which will benefit our citizens directly. For instance, improvements have reduced the time to process subdivision service agreements for approval by nearly one half. A number of technological improvements have been implemented so residents can conduct business with the City in a more timely and effective way via the Internet.

We are pleased to report that our successes during 2002 are aligned with the priorities set for us by City Council and clearly linked to the goals that appear in the Strategic Plan for the City of Medicine Hat.

Civic Government

City Council is composed of a Mayor and eight Aldermen. Council is responsible for developing and evaluating the policies and programs of the municipality, and delegates the responsibility for carrying out those policies to the Administrative Staff. Regular Council meetings are held on the first and third Mondays of each month.

There are five ***Standing Committees of Council***:

- Corporate Services Committee
  Alderman W. Cocks, Chairman
- Public Services Committee
  Alderman J. Friesen, Chairman
- Utilities Services Committee
  Alderman W. Craven, Chairman
- Economic Development Committee
  Alderman J. Hamill, Chairman
- Administrative & Legislative Review Services Committee
  Alderman R. Dumanowski, Chairman

The ***Chief Administrative Officer (CAO)*** is the administrative head of the City. The CAO is the chairman of the Board of Commissioners and is responsible for the overall leadership and management of all executive policies of City Council and for all administrative matters.

The ***Board of Commissioners*** operates both as a Special Committee of Council, recommending policies and programs requested by Council or considered advisable by the CAO, and as an Executive Team handling administrative matters impacting the Corporation or other Divisions. The Executive Team includes the CAO, Mayor, and Commissioners and other designated officers.

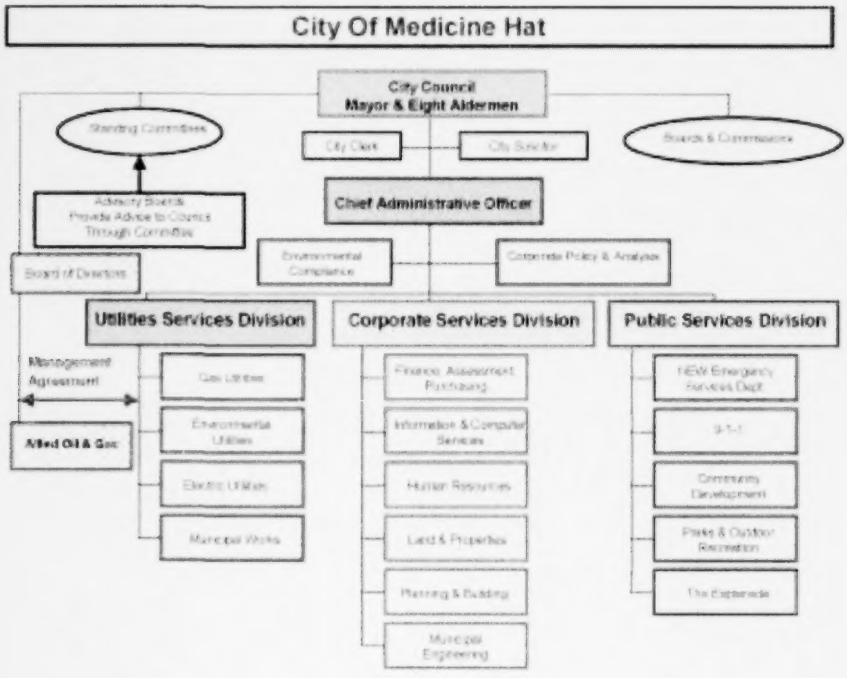
Boards and Commissions:

- Urban Environment and Recreation Advisory Board
- Economic Development Advisory Board
- Municipal Planning Commission
- Subdivision and Development Appeal Board
- Police Commission
- Cultural Development Advisory Board
- Social Development Advisory Board
- Assessment Review Board
- Medicine Hat Public Library
- Medicine Hat Museum and Art Gallery

Other Organizations with Council representation:

- Medicine Hat Exhibition and Stampede Board
- City Centre Development Agency
- Medicine Hat Regional Social Housing Agency
- Cypress View Foundation
- Shortgrass Library System
- Tourism Medicine Hat Committee

CORPORATE ORGANIZATION



EXECUTIVE TEAM

- Provides the Mayor and senior management with a forum for discussion and consideration of administrative matters
- Reviews items requiring Council approval for consistency and accuracy
- Provides an avenue to seek consensus on items impacting the Corporation or other Divisions

Gerry Labas, Chief Administrative Officer
and Commissioner of Utilities Services

Robert (Bob) E. Wanner, Commissioner
Public Services

Ray Gilmour, Commissioner
Corporate Services

Garth Vallely
Mayor

John Hughes
City Solicitor

Larry Godin
City Clerk

Council's Vision & Mission

— Our Vision —

To Be a Community of Choice

Working together with the Community, Council has articulated this vision for the City of Medicine Hat. It is a vision that sees a vibrant city, with residents, businesses, and visitors seeking to make Medicine Hat their "community of choice."

— Our Mission —

while Balancing Accessibility and Affordability, is to Exceed Expectations in the Value of our Services

In pursuit of our vision, Council has committed to a mission of striving to "exceed expectations" ... of our residents, businesses, and visitors. By first stating *what* we want to be and then next establishing *how* we plan to achieve our vision, Council signals civic administration and the community about the type of organization we continually must strive towards.

Guiding Principles

- Providing strong and effective leadership
- Working together with a unified purpose

Values

- Innovation, creativity, and diversity
- Openness, debate, and participation
- Performance and results
- Being proactive
- Balanced and responsible development
- A long-term perspective
- Well-being of residents and employees
- Principle of self-determination for our community
- Continuous learning and staff development

Priorities

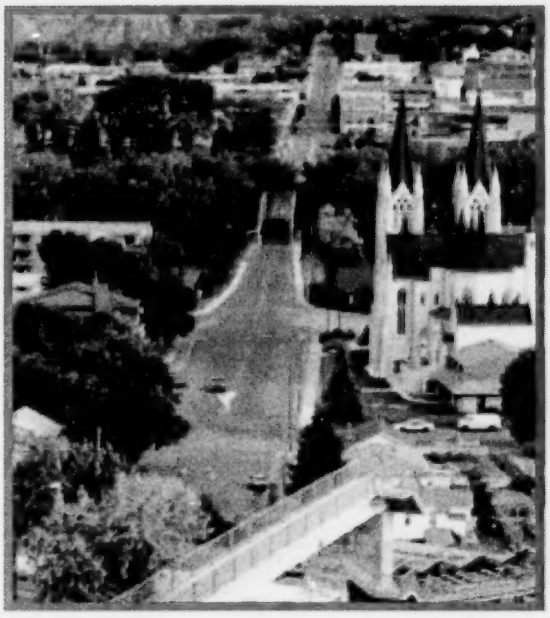
- Fiscal responsibility
- Sustainable utilities
- Sound infrastructure
- Economic development
- Communications and community relations
- Environmental stewardship
- Community development
- Organizational strength

Council's fundamental Guiding Principles, Core Values and eight key Priorities provide a clear organizational mandate that allows administration to align itself and purposefully plan and work towards Council's objectives. Just as importantly, it gives all taxpayers and ratepayers a common framework within which they hold us accountable.

PERFORMANCE MEASUREMENT

Success ... it is what every individual and every organization strives to achieve. It does, however, have different meanings to different people. Stemming from Council's Vision, Mission, Principles, Values, and Priorities, the Administration has established a core set of Measures of Success that serve as a clear indication of performance to individual departments and business units.

Established corporately at a high level in five main categories (Financial, Residents, Internal Business Process, Learning and Growth, and Annual Operating Plans), these measures are then broken down into detailed departmental measures that are used to manage individual business unit performance and to gauge "success."



"We are successful when ..."

1. Financial:

(a) Tax-supported operations deliver services within approved revenue and expenditure budgetary limits.

(b) Utilities meet or exceed their operating plan goals / objectives.

(c) All Departments realize annual productivity improvements in their quest to reach a 75% percentile performance (best in class) when compared against similar operations.

2. Residents:

(a) Stakeholder "inclusiveness and understanding" improves annually with respect to services received (measured by the satisfaction level of residents with our services).

(b) Residents of the City of Medicine Hat receive quality service from the City departments (measured by requests being acknowledged within 2 business days with a plan of action).

3. Internal Business Processes:

(a) Continuous improvement is realized annually, in the efficiency and effectiveness of selected business processes regularly affecting our residents.

(b) Major *positive impacts* are achieved through the *redesign* of processes that currently command significant levels of resources.

4. Learning and Growth:

(a) We achieve annual improvements over our 2000 employee survey benchmark.

(b) The workforce knowledge base continues to increase (measured by the level of employee experience and formal training).

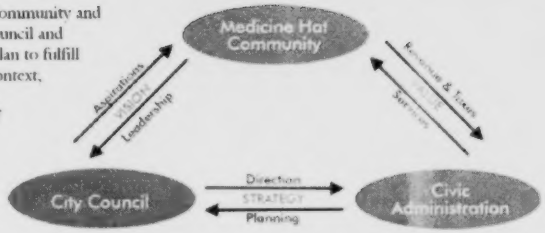
5. Annual Operating Plans:

(a) Operating Plan targets are achieved.

(b) Progress is made with respect to Council's priorities (measured against the Priority Position Paper objectives).

Community Relations

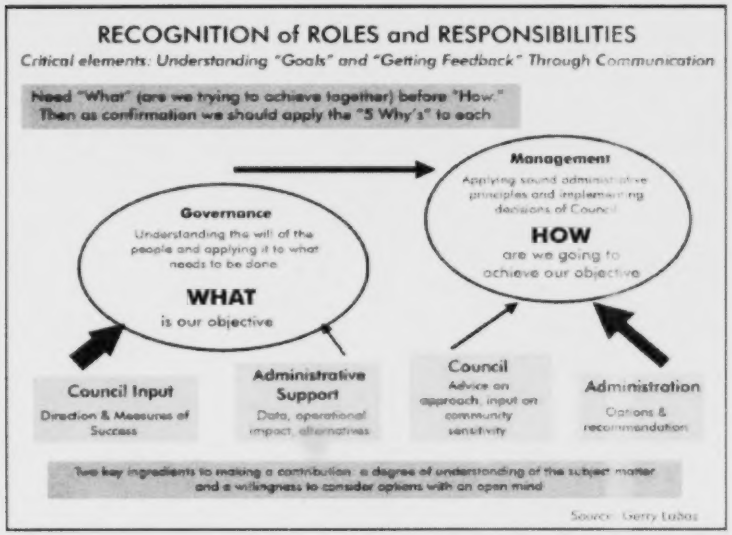
Working together, the Community and Council develop a Vision; Council and Administration strategically plan to fulfill the Vision; and within that context, the Community looks to the Administration for services of value for their tax dollar.

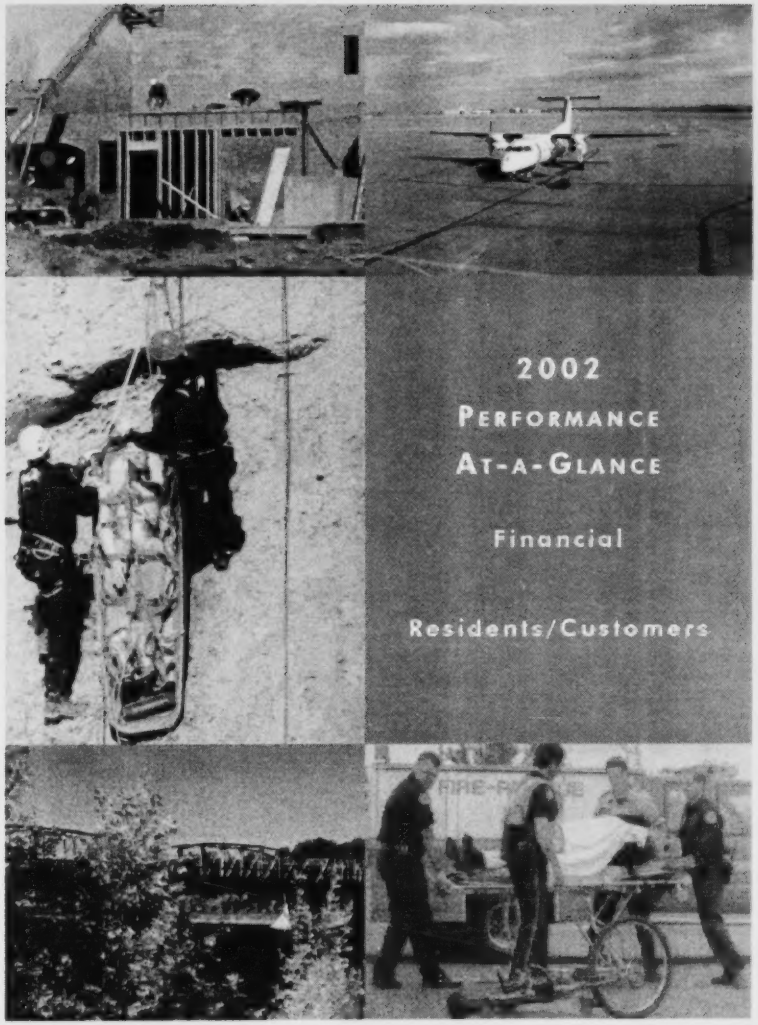


Source: G. Labas & J. Fielding

Recognition of Roles & Responsibilities

Administration recognizes the critical element to meeting Council's goals and objectives is a clear understanding of the "what" in order to properly deliver the "how."


RECOGNITION of ROLES and RESPONSIBILITIES
Critical elements: Understanding "Goals" and "Getting Feedback" Through Communication
Need "What" (are we trying to achieve together) before "How."
Then as confirmation we should apply the "5 Why's" to each
Governance
Understanding the will of the people and applying it to what needs to be done
WHAT
is our objective
Management
Applying sound administrative principles and implementing decisions of Council
HOW
are we going to achieve our objective
Council Input
Direction & Measures of Success
Administrative Support
Data, operational impact, alternatives
Council
Advice on approach, input on community sensitivity
Administration
Options & recommendation
Two key ingredients to making a contribution: a degree of understanding of the subject matter and a willingness to consider options with an open mind
Source: Gerry Labas



FINANCIAL – AFFORDABLE, WELL-MANAGED SERVICES

2002 STRATEGIES

Continue to deliver tax-supported operations within approved budget limits.

- Tax-supported operations deliver services within approved revenue and expenditure budgets.
- Responsible planning occurs to address additional operational costs associated with planned major capital projects including exploration of new revenue opportunities.
- $ / capita spent on various tax-supported operations remain comparable to peer municipalities.

Land and Utilities continuously meet or exceed operating plan objectives.

- Utilities continue to achieve equity growth and provide dividends that escalate at 3% annually.
- Gas and Electric to achieve 'industry comparable' rates of return on equity.
- Add gas supply to maintain a 10-year reserve life index.
- Electric generation equivalent availability index over 90%
- 4.5% annual reduction to municipal waste per person handled at the Landfill.
- Land sells at least 150 residential lots, maintains an inventory of 300 serviced residential lots and achieves a return on equity of 15%.

All departments strive for top quartile performance.

- Develop improved performance measures in all departments linked to the Strategic Plan.

2002 RESULTS (AGAINST STATED STRATEGIES)

- Total tax-supported operations reported a cumulative net favourable variance of $2,042,500.
- Finance achieved an overall investment portfolio return of 4.27% versus the benchmark rate of 3.68%.
- Community Development revenue/cost ratio was 35.66% (target was 30%).
- Transit revenue from customers increased by 2.46% (due mainly to increased ridership).
- Total municipal expenditures per capita are within 2% of the peer municipality average for the Alberta (2001 data).
- The dividend from Utilities to tax-supported operations was $22.894 million.
- Gas Utility performance:
  - Net income - $38.1 million
- Electric Utility performance:
  - Net income - $397,000
- Environmental Utilities performance:
  - Progress towards 2005 waste diversion target is slightly ahead of schedule
  - Water and Waste Water Treatment Plants met every provincial operating license treatment parameter
- Land sold 323 properties, the most since 1980, had a year-end inventory of 14 lots and achieved a net income of $6.4 million.
- All departments now report on a series of selected performance measures as part of the quarterly management reporting process.
- Several departments have developed measurement systems and gathered empirical data to support their ranking in the top quartile.

2003/04 OBJECTIVES

Continue to deliver tax-supported operations within approved budget limits.

- Tax-supported operations deliver services within approved revenue and expenditure budgets.
- Responsible planning occurs to address additional operational costs associated with planned major capital projects including exploration of new revenue opportunities.
- $/capita spent on various tax-supported operations remain comparable to peer municipalities.

Land and Utilities continuously meet or exceed operating plan objectives.

- Utilities continue to achieve equity growth and provide dividends that escalate at 3% annually
- Gas and Electric to achieve 'industry comparable' rates of return on equity.
- Add gas supply to maintain a 10-year reserve life index.
- Electric generation equivalent availability index over 90%
- Water and sewer rates remain below the provincial averages.
- 4.5% annual reduction to municipal waste per person handled at the Landfill.
- Land sells at least 150 residential lots, maintains an inventory of 300 serviced residential lots and achieves a return on equity of 15%.

All departments strive for top quartile performance.

- Develop improved performance measures in all departments linked to the Strategic Plan.

RESIDENTS/CUSTOMERS – STAKEHOLDER SATISFACTION THROUGH QUALITY SERVICE DELIVERY

2002 STRATEGIES

Continue to improve annual stakeholder inclusiveness, understanding and satisfaction.

- Establish customer satisfaction benchmarks in several key service areas and continue to develop specific feedback mechanisms to gauge service effectiveness.
- Continue to implement strategies for better information benefiting the general public, customers and potential businesses.
- Meet with developers, builders and other key stakeholders in the municipal development process at least bi-annually.

Continue to focus on service quality to customers / residents – getting it right "the first time."

- Meet 2001 service targets (at a minimum) and adjust as required to maintain top quartile performance
- Departments to further develop service quality targets and data collection mechanisms consistent with Strategic Plan.

Continue to demonstrate "Medicine Hat Advantage."

- Compare taxes, rates and fees with other communities to ensure the City's attractive position is maintained.

2002 RESULTS (AGAINST STATED STRATEGIES)

- Public consultation and information sharing occurred through a variety of means:
  - Surveys to assess user satisfaction with municipal services
  - Public consultations held including: The Esplanade, South Ridge Recreation Facility, Allowance Avenue Overpass, the Carry Drive / Dunmore Road re-design and several area developments
  - Consultation on the environmental impacts of major sewer upgrades
  - Transit forums to solicit route and service feedback
  - Meetings to develop the City housing blue print.
  - Stakeholder meetings regarding housing, recreation, transit, culture and seniors
  - Meetings with the development and building industry resulting in some improved internal procedures
- City's website was enhanced and updated to encompass a broader range of information on areas of public interest.
- The City of Medicine Hat participated in the creation of the Economic Development Alliance (Southeast Alberta) to jointly pursue economic development opportunities for Southeast Alberta.
- Various tax, rate and fee comparisons continued to demonstrate the 'Medicine Hat Advantage':
  - Medicine Hat has the lowest combined municipal property tax and utility charges in Canada
  - Gas rates consistently less than 50% of provincial average
  - Electric rates averaged approximately 70% of the market.
  - Water / Sewer costs for residents were 61- 86% of the provincial average
  - Various recreation, leisure and cultural fees were maintained at not more than 95% of the average for comparable municipalities
- Municipal revenue generated through property taxes is less than 30%, while the Alberta City average is over 40%.
- Completed improvements to the Dunmore Road/Park Meadows Drive and the intersection at the Family Leisure Centre.
- Acquired a Facility Maintenance Management System to improve the information needed to effectively operate, maintain and renew municipal facilities and equipment.
- Implemented a plan to stabilize rate adjustments by avoiding large increases in rates in any one year.

2003/04 OBJECTIVES

Continue to improve annual stakeholder inclusiveness, understanding and satisfaction.

- Establish customer satisfaction benchmarks in several key service areas and continue to develop specific feedback mechanisms to gauge service effectiveness.
- Continue to enhance the public consultation and information processes for better informing the public.
- Meet with developers, builders and other key stakeholders in the municipal development process at least bi-annually.

Continue to focus on service quality to customers / residents – getting it right "the first time."

- Meet 2001 service targets (at a minimum) and adjust as required to maintain top quartile performance

Continue to demonstrate "Medicine Hat Advantage."

- Design and begin construction of The Esplanade, Emergency Services Station and South Ridge Recreation Facility.

INTERNAL BUSINESS PROCESSES – IMPROVING HOW WE PROVIDE OUR SERVICES

2002 STRATEGIES

Annually improve business processes that affect our residents.

- Improve efficiencies of at least one operating process annually in each department.
- Enhance effectiveness of at least one service delivery mechanism annually in each department.
- Focus specifically on reducing barriers to doing business in Medicine Hat as well as initiating e-business capabilities where customers will be able to access *and* pay for selected services over the Internet.

Achieve major positive impacts through redesign of selected processes offering high potential.

- Target significant cost savings or service quality improvements (>50%) on high priority processes selected through the Planning and Budget Processes.
  - Implement recommended improvements to the Corporate Budget Process for 2003 Budget Year
  - Implement a geographic information based permit system to greatly enhance efficiency and ultimately customer convenience
- Implement the new Meter Records System enabling Utility Departments and Utility Billing to process meter records in a greatly improved fashion.

2002 RESULTS (AGAINST STATED STRATEGIES)

- Implemented improvements to the City's budget and planning processes.
- Constructed the Kipling Street Residential Recycling Depot designed for better functionality, better access to persons with disabilities, and improved operating cost efficiencies.
- Installation underway of a new LM6000 turbine that is 30% more efficient at electrical generation than the aging equipment it replaces.
- Medicine Hat hosted a conference for Economic Development Officers from across Alberta.
- Improvements were made to significantly reduce the time needed to process subdivision service agreements.
- Design completed for a new permit system; implementation scheduled for first quarter of 2003.
- Developed and implemented a new meters record system.
- Installed a chlorine analyzer in the water distribution system to provide an added measure for monitoring and recording quality of water used by residents.

2003/04 OBJECTIVES

Annually improve business processes that affect our residents.

- Improve efficiencies of at least one operating process annually in each department.
- Focus specifically on reducing barriers to doing business in Medicine Hat.
- Identify new partnerships in the delivery of services.
- Introduce an extended five-year maintenance plan for aging infrastructure.

Achieve major positive impacts through redesign of selected processes offering high potential.

- Combine Fire and Paramedic services into an Emergency Services Department.
- Target significant cost savings or service quality improvements (>50%) on high priority processes selected through the Planning and Budget Processes.

ORGANIZATIONAL LEARNING AND GROWTH – SUPPORTING A STRONG WORKFORCE

2002 STRATEGIES

Achieve annual improvement over the 2000 Employee Survey benchmarks.

- Re-survey the employees and make measurable progress towards an overall 95% satisfaction rating.
- Build upon the Employee Recognition Program by increasing overall staff awareness and ensuring alignment with stated organizational values.
- Implement an employee contribution, feedback and development process.
- Initiate a formal review of the City's employee benefits package.
- Increase safety inspections and training sessions over 2001 levels.

Continue to grow the talent level and knowledge base of our workforce with an eye to succession.

2002 RESULTS (AGAINST STATED STRATEGIES)

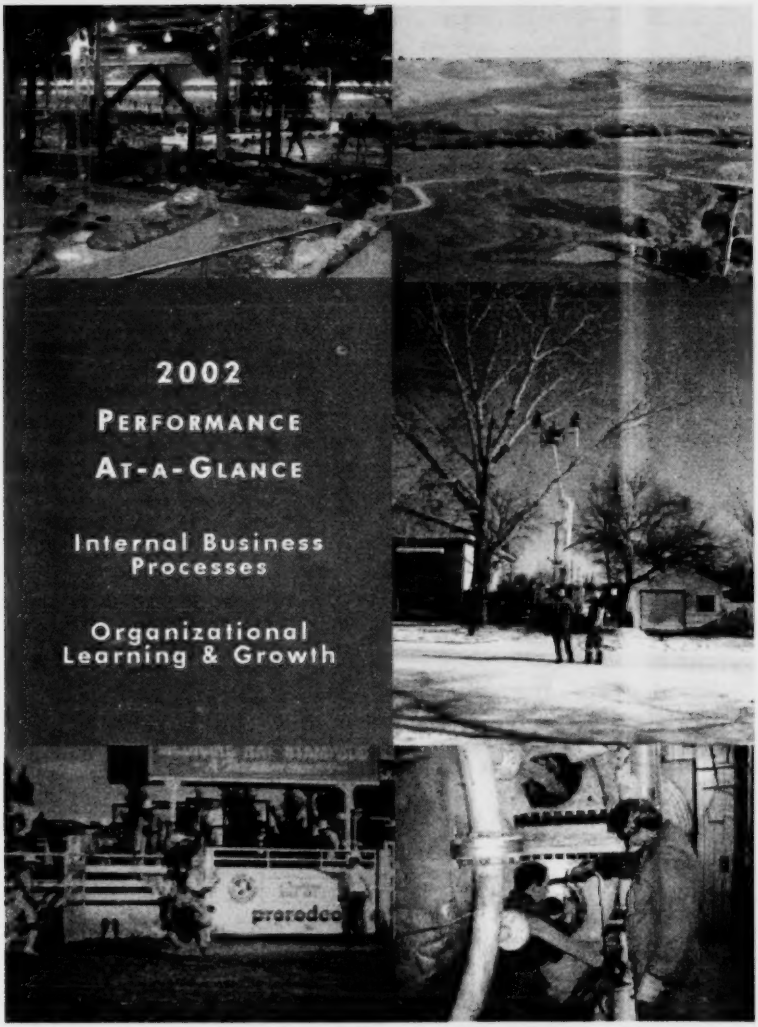
- Conducted a survey to assess employee satisfaction that indicated measurable progress towards the overall 95% satisfaction rating.
- Developed and offered Work Group Leadership training for the first three groups of supervisors and managers (54 participants).
- Developed an Organizational Leadership Program for Senior Managers to be implemented in 2003.
- Offered project management training to 61 staff, of which 45 continued on to the advanced training program in project management.
- Offered 42 safety training opportunities for 560 employees and another 94 employees participated in health and safety orientation for new employees.
- Initiated a review of the existing group benefits package through a joint labour management team, including the input of focus groups that allowed the direct input of another 95 staff.
- Implemented a creative safety inspection program known as "Fresh Eyes" to inspect operational facilities.
- One additional group of Personal Leadership training was conducted bringing the total number of employee participants to 250 since the program's inception in 1996.
- Information and Computer Services coordinated 15 computer-training classes for a total of 118 staff attendees for various standard City software.
- Contract settlements with the International Association of Fire Fighters (IAFF), the Police Association, the International Brotherhood of Electrical Workers (IBEW-Production) and the Canadian Union of Public Employees (CUPE).

2003/04 OBJECTIVES

Achieve annual improvement over the 2000 Employee Survey benchmarks.

- Make measurable progress towards an overall 95% employee satisfaction rating.
- Build upon the Employee Recognition Program by increasing overall staff awareness and ensuring alignment with stated organizational values.
- Improve the process for developing job descriptions so they are more suitable for use in recruiting, determining compensation levels and defining work expectations.
- Maintain levels of safety inspections and training sessions.

Continue to grow the talent level and knowledge base of our workforce with an eye to succession.


2002
PERFORMANCE
AT-A-GLANCE
Internal Business Processes
Organizational Learning & Growth
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Introduction

As stated in the City Strategic Plan, Council's eight priorities identify the key areas the administration is to focus on as it pursues Council's Vision and Mission. Within each priority, Council has further approved several specific strategies where progress is expected each year.

This Annual Report serves to report on and highlight progress with respect to each priority and associated strategies. The following pages provide insight to several key initiatives taken in 2001 as part of the strategic direction for the City of Medicine Hat.

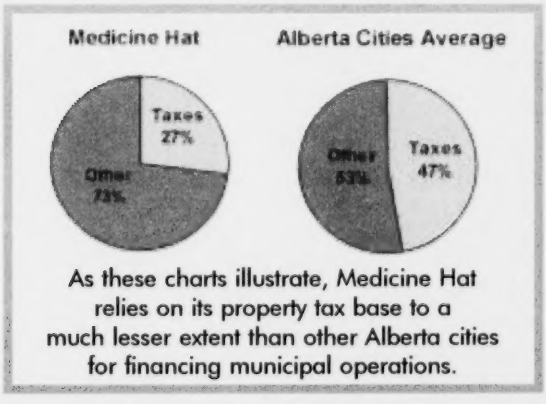
Priorities

- Fiscal responsibility
- Sustainable utilities
- Sound infrastructure
- Economic development
- Communications and community relations
- Environmental stewardship
- Community development
- Organizational strength

Fiscal Responsibility

Council and staff strive to ensure that services provided by the City of Medicine Hat are affordable and well-managed. Strategies in this regard work towards attractive taxation, utility rate and user fee structures, balanced with the need to maintain a growing infrastructure and ongoing service quality.

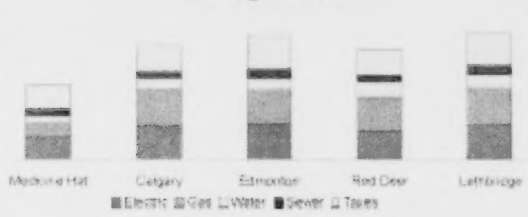
Even though Medicine Hat continued to grow, thereby increasing both the demand for municipal services and the need to expand infrastructure, the City's financial position was stronger by the end of 2002. Prior to transfers to reserves, tax supported operations ended the year with a positive variance of $2.043 million and combined utility net income was $37.8 million. Capital investments totaling $166.6 were made with the largest investment being in the Gas Utility ($111.6 million). Because of the City's strong financial position, only $18.9 million in new long term debt was incurred to finance the capital program. In addition, $40 million of $50 million in short term borrowings to finance a major gas acquisition was retired in 2002 and the remaining $10 million was retired in January of 2003. Total assets grew by $69.1 million and the equity position (operating, capital and reserve fund balances) increased by $48.5 million. Three major capital projects on the tax supported side of the operations have been approved and City Council through the strategic planning and budgeting process is cognizant of the impact on future operating costs and is addressing this issue.



As these charts illustrate, Medicine Hat relies on its property tax base to a much lesser extent than other Alberta cities for financing municipal operations.

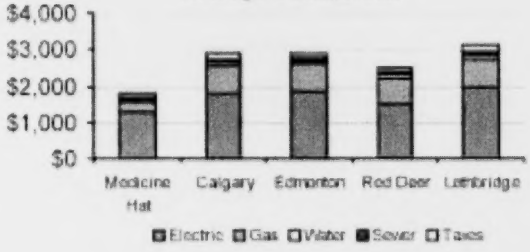
MONTHLY TAX AND UTILITY RATE COMPARISONS

Average Residential



MONTHLY TAX AND UTILITY RATE COMPARISONS

Average Commercial



Medicine Hat property taxes and utility rates on a per capita basis continue to be the lowest in Alberta. The charts above show that the average residential monthly tax and utility rates in Lethbridge are close to 20% higher than those in Medicine Hat. Businesses in Medicine Hat also enjoy attractive municipal tax rates and utility rates.

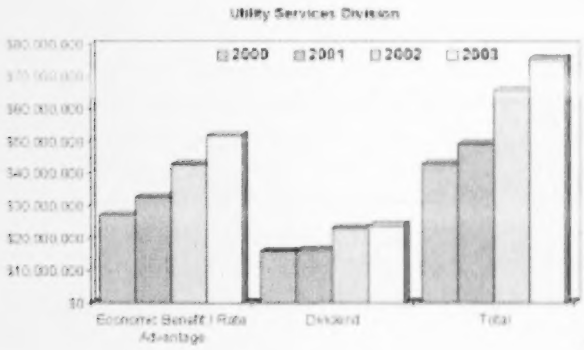
Medicine Hat residents and businesses also enjoy lower municipal taxes resulting from a significant portion of the profits from the utilities being used to cover the cost of municipal services. 70% of revenues for municipal services come from other than municipal taxes. These non-tax revenues per capita are much higher in Medicine Hat when compared to other communities. The accompanying chart shows that other communities rely more on taxes to cover the cost of municipal services. City Utility Services (Gas, Electric and Environmental Utilities) generated enough revenue to cover 30% ($23 million) of the cost of municipal services in 2002.

Municipal departments strive to identify opportunities that generate added revenues and other uses of resources wisely so that expenditures will not exceed revenues and so that the quality of life for the citizens of Medicine Hat can be sustained.

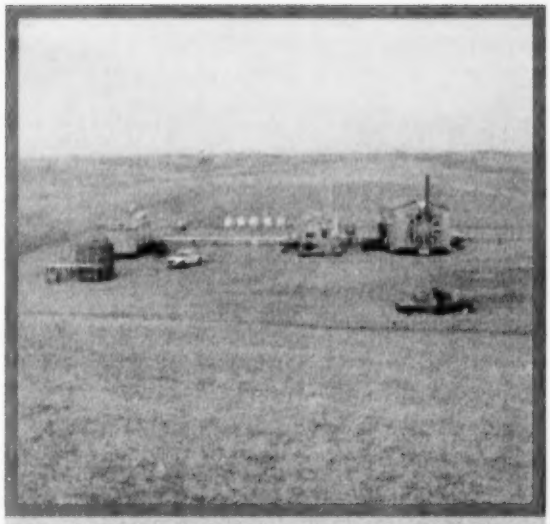
Sustainable Utilities

Medicine Hat's enviable cost of living continues to be supported through the ownership and careful management of its stand-alone enterprises. These include Gas, Electric, Water, Sewer and Solid Waste Utilities, plus the Land and Properties Department. By pursuing strategies that promote sustainable growth, ensure appropriate infrastructure maintenance and replacement, and seek out alternative revenue options, Council can continue to offer attractive utility rates and use sales proceeds to generate annual dividends to offset the requirements for property taxes.

The City of Medicine Hat continues to be committed to effective management of its utility services, including practices that promote sustained growth for all utilities and a policy of long-term financial stability for those utilities. The Utility Services Division is expected to contribute an annual dividend to support the tax-supported side of municipal services and to provide growth in equity by at least 3% annually for each of the utilities. In 2002, the Utilities Services Division contribution to the General Fund increased to $22.894M. The total return on equity for the utilities (excluding land) was 12.3%.



In 2002, the Gas Utility proudly celebrated 100 years of services to the citizens of Medicine Hat. Since 1902, it has developed gas reserves in a safe and reliable manner for the benefit of Medicine Hat residents. It has also provided incentives for industrial growth to diversify the economy and provide more employment opportunities for Medicine Hat residents. The Gas Utility has invested in the replacement of gas reserves to restore declining reserves and to augment our production profile. Over the years, that has proven to be in the best interests of City of Medicine Hat.



The City of Medicine Hat continues to provide utilities at the lowest cost anywhere in Alberta. Utility costs for residential and commercial users in Medicine Hat are 30% less than other communities in Alberta.

The City of Medicine Hat continues to provide utilities at the lowest cost anywhere in Alberta. Utility costs for residential and commercial users in Medicine Hat are 30% less than other communities in Alberta. There has also been a special effort to implement fully a plan to stabilize rate adjustments by avoiding large increases in rates in any one year. Utility pricing has been directed at promoting fairness and equity across customer classes while implementing price adjustments needed to help cover the replacement cost of reserves, provide dividends to support the tax-side of City services and for the renewal of utility infrastructure.

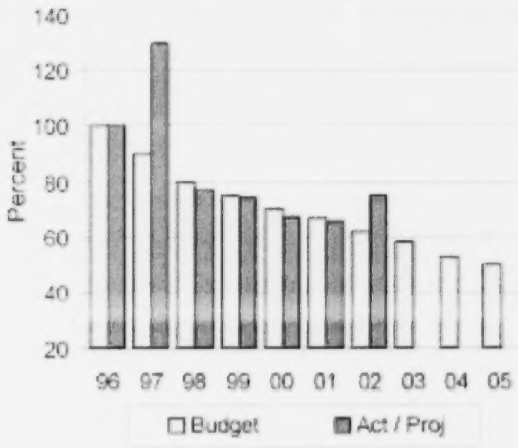
According to a recent international study, the City of Medicine Hat has one of the lowest overall operating cost options for companies seeking to establish or expand their operations. Medicine Hat ranked third among 115 communities surveyed.

During 2002, the City was successful in achieving two key objectives needed to achieve long-term sustainability of its Electric Utility. It received regulatory approval for a major investment in state-of-the-art high efficiency turbine equipment to generate electricity and it made strong representation to ensure amendments to the Alberta Electric Utility Act preserved the City's ability to have its own Electric Utility. The new LM6000 turbine is 30% more efficient at electrical generation than the aging equipment it replaces. The result is lower operational costs, attractive utility pricing for residents and businesses in Medicine Hat, and environmental benefits as well by achieving a 35% reduction in turbine emissions compared to 1990. Even though there are some planned legislative changes to the Alberta Electric Utility Act, it is expected that the amended Act will retain the special exemptions that make it attractive for Medicine Hat to have its own Electric Utility.

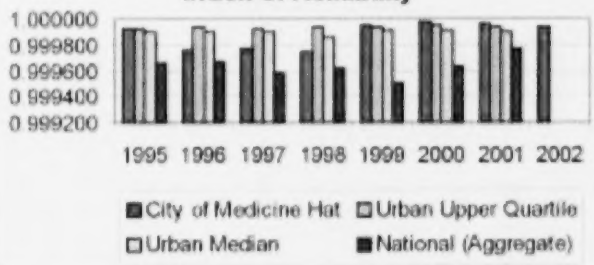
The City is also delighted that its Electric Utility performs exceptionally well when compared to other electrical utilities in Canada. Since 1999, the City of Medicine Hat Electric Utility has ranked second or third for best performance among 24 similar utilities for reliability of service to its customers. External benchmarking also indicates that the City's Electric Utility is a top performer in the capability and reliability of its generation units to produce electricity.

Waste Diversion Progress

Toward Council's CCME 50% Goal



Index of Reliability



Sound Infrastructure

Sound infrastructure not only supports the quality of life for the residents of Medicine Hat, but is a significant contributor to the economy as well. Through wise expenditure of public funds on maintenance and replacement initiatives as well as strategic investment in new infrastructure, City Council strives to provide a strong base from which the community can thrive and grow. As part of the Sound Infrastructure Priority, an appropriate balance among transportation systems, pedestrian corridors, buildings, facilities and amenities is continually sought.

Improvements to roadways and pedestrian walkways continued to be a priority for the City. Improvements were made to intersections and roadways that are nearing capacity to accommodate increased traffic volume and address safety concerns. The City consulted with stakeholders affected by these projects so as to optimize the project design, construction sequence/timing and the method of construction.

The $14 million Allowance Avenue Overpass Twinning project is in the final stages of completion. The re-alignment of the approaches to the overpass and the relocation of deep utility services have been finished and the concrete decking for the overpass structure is in place so that the project can be completed in the fall of 2003. Upgrades to two major intersections on Dunmore Road were initiated during 2002. The upgrade to the intersection at Park Meadows Drive has been completed. Utility services at the Carry Drive/Dunmore Road intersection have been relocated so that the project upgrade can be finished in the spring of 2003. The City also completed the Division Avenue North roadway to improve access to the Family Leisure Centre and the neighbouring areas.

A priority for the citizens of Medicine Hat is that resources be allocated for the maintenance and renewal of streets and pedestrian walkways. In 2002, a three year program of renewal for sidewalks, curbs and gutters was completed enabling the City to reduce the outstanding deferred maintenance in these areas. The City also improved the quality and safety of its streets by allocating resources for its annual road overlay program. Additional resources were invested in roads and other services to accommodate growth, such as the services required for the Phase II expansion of the Saamis subdivision.

The $14 million Allowance Avenue Overpass Twinning project is in the final stages of completion. The re-alignment of the approaches to the overpass and the relocation of deep utility services have been finished and the concrete decking for the overpass structure is in place so that the project can be completed in the fall of 2003.

The City has initiated a process to develop a master plan to effectively manage the acquisition, development and disposal of facilities required by Medicine Hat for the next 20 years. The Realty Asset Development Plan for the City will be under development during 2003.

A newly acquired Facility Maintenance Management System will significantly improve the information needed by the City to achieve the best use of resources to effectively operate, maintain and renew municipal facilities.

Economic Development

Council continues its strong commitment to economic vitality. As municipal government creates the business environment and the infrastructure necessary for prosperity, Council's strategies centre around eliminating barriers and creating a balanced approach for economic opportunities and sustained growth. This approach includes offering the highest quality environment, services, and amenities necessary to attract new business investment, as well as supporting the retention and expansion of existing local businesses.

A recent international study conducted by the consulting firm of KPMG revealed that Medicine Hat offers compelling advantages to firms seeking the best location to establish or expand their operations. The study entitled *Competitive Alternatives: Comparing Business Costs in North America, Europe and Japan* evaluated the cost of doing business in the leading industrial countries of the world. Medicine Hat ranked third among 115 communities surveyed. The study considered several cost factors such as labour costs, taxes, transportation costs, energy costs and facility costs, as well as quality of life, business environment, and personal costs associated with living in a community. This assessment certainly bodes well for economic development in Medicine Hat and Southeast Alberta.

"The Council recognizes the importance of sustaining and enhancing the quality of life in the community and wants to explore options for expanding and diversifying the tax base. Council members want to build consensus on economic development within the community."

Dianne Lougheed Keefe – Medicine Hat
Economic Development Strategic Assessment

The City of Medicine Hat is a partner in the Palliser Economic Partnership (PEP), which is made up 15 jurisdictions: rural municipalities, villages, towns and the City of Medicine Hat. The region is bounded roughly by the borders of Saskatchewan and USA, and Highways 9 and 36. Medicine Hat has been working in conjunction with the Palliser Economic Partnership to produce an Economic Development Strategic Assessment for Medicine Hat (Phase I) which will complement the strategic assessment prepared for the PEP region. The strategic assessment provides crucial information for long-term economic development planning for the Medicine Hat region.

In conjunction with the Palliser Economic Partnership, Medicine Hat has submitted a request to the Western Economic Diversification Agency for funding assistance to complete the second phase of a three-phase Economic Development Strategy study for the PEP region. The aim of the second phase is to identify and build strategies to expand existing business and industry clusters as well as attract new foreign investment to build on existing industry cluster strength.

Economic Development

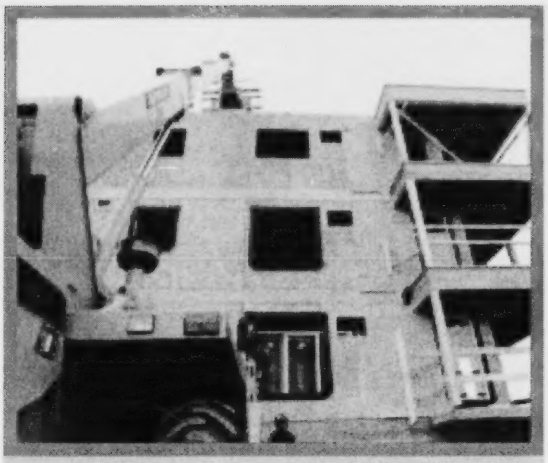
The Economic Development Strategic Assessment developed for Medicine Hat and released in 2002 achieved the following objectives:

- It defined the key clusters or sectors driving the local economy.
- It compared the economy in the City of Medicine Hat with other communities.
- It identified key business sectors with high potential for growth.
- It provides a focus for the development of an economic strategy for the City of Medicine Hat.

The City of Medicine Hat also made a major commitment to support the creation of the Economic Development Alliance of Southeast Alberta. The Economic Development Alliance (EDA) is a partnership to jointly pursue economic development opportunities for southeast Alberta. It is made up of the City of Medicine Hat, Redcliff, Cypress County, County of Forty Mile, the Medicine Hat Chamber of Commerce and others. The Economic Development Alliance will be an independent entity, governed by a Board of Directors from contributing partners and other community representatives.

Economic Development Alliance (EDA) of Southeast Alberta

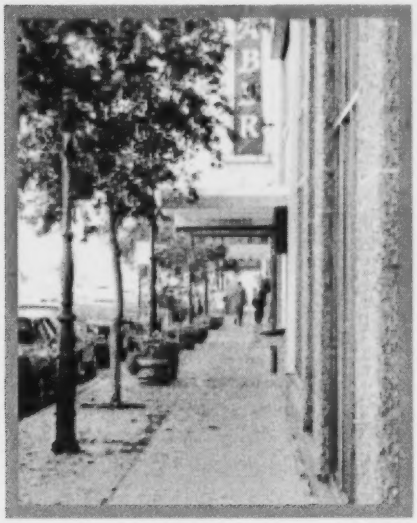
Network and Scope of Responsibilities 2003



In 2002, 317 city residential lots were sold. This is the highest number since 1980 and a substantial increase over last year's sale of 186 lots. There were also 7 major property sales, well above the trend in recent years. These property sales were made up of commercial, industrial and large multi-family dwelling sites.

Medicine Hat proudly hosted a conference for Economic Development Officers from across Alberta. The conference focused on several issues and opportunities of interest to development officers. The Minister of Economic Development provided a report on the current state of economic development for the province of Alberta. Delegates returned home with a wealth of information covering such topics as the value that economic development can bring to a community, the effective use of data and information in economic development; and developing and implementing an effective approach to community-based economic development strategies.

ECONOMIC DEVELOPMENT ALLIANCE OF SOUTHEAST ALBERTA

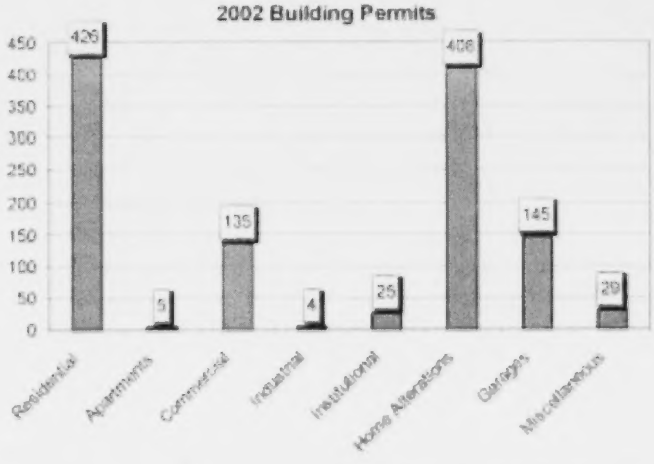


In 2002 the Planning & Building Department:

- completed 17,560 safety code inspections
- issued 454 new business licenses
- issued a total of 4,835 permits:
  - 825 - plumbing
  - 1,045 - gas
  - 1,468 - electrical
  - 787 - water and sewer
  - 44 - sign
  - 161 - occupancy
  - 24 - demolition

During 2002, the City as a partner was actively involved in assisting with planning activities associated with City Centre Development Agency. This Agency coordinates and supports activities associated with the solutions to improve the City Centre. The City also renewed another important partnership agreement with the Medicine Hat Chamber of Commerce to provide tourism services for the City of Medicine Hat.

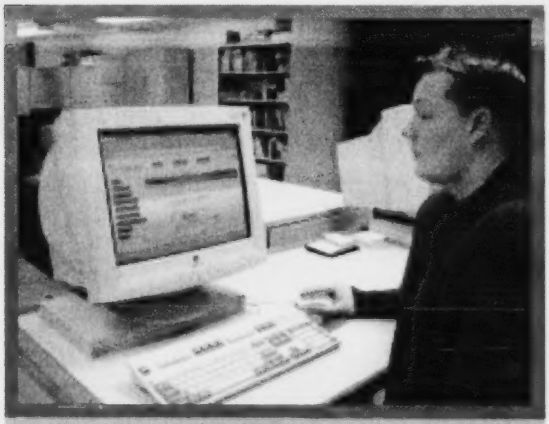
The City continues to encourage development through affordable lot pricing. In 2002, 317 city residential lots were sold. This is the highest number since 1980 and a substantial increase over last year's sale of 186 lots. There were also seven major property sales, well above the trend in recent years. These property sales were made up of commercial, industrial and large multi-family dwellings (R-3 and R-2) sites. A new subdivision was added, Saamis Heights, 2A (71 lots). Development and building permit applications increased significantly as well in 2002. In an effort to streamline the land development process, improvements were made to significantly reduce the time needed to process subdivision service agreements.



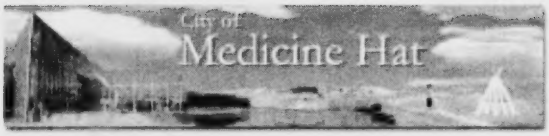
Communications & Community Relations

City Council recognizes the significant role it plays in keeping the community informed about emerging issues and critical decisions. In order to perform this role to a high standard, Council understands that information must not only be accurate, but must be accessible and relevant to the intended audience. To this end, Council's Communications and Community Relations Strategies reflect efforts on several fronts to better inform and involve all stakeholders.

In 2002, the City provided numerous opportunities for public consultation to seek the wisdom of the citizens in this community. These took the form of public forums, open houses, meetings with community groups, invitations to express views via the Internet were used for major projects such as The Esplanade, the South Ridge Recreation Facility, Affordable Housing Initiatives, as well as for several other initiatives, some of less magnitude. An interesting approach to public consultation occurred when the City suggested that the public could use the Internet to express their views as to which of two flag options the City should use for ceremonial purposes. While citizens had several alternatives available to express their views, via the Internet was by far the most popular way of doing so.



Chad Foster from the Information & Computer Services Department works on the City's website.



The Top Ten Hit List for the City of Medicine Hat's Internet Web Site: www.medicinehat.ca

- City iMap
- Job Opportunities
- Local Information
- City Services
- Purchasing Tenders
- E-Services
- Economic Development
- Family Leisure Centre
- City Council
- The Esplanade

The City's website—www.medicinehat.ca—continues to be an extremely effective way to inform citizens, to seek public consultation, as well as to provide them with access to municipal services, 24 hours a day, 7 days a week. Use of the City's website has tripled in the last twelve months. Besides media advertising to encourage its use, the website was enhanced to provide additional information regarding Council meetings and agendas for standing committees. New pages were added to include Police Services and The Esplanade.

The City provides an opportunity for its citizens to be more directly involved in their community by inviting them to serve on an Advisory Board, a Commission or an Advisory Committee, such as the Police Commission, Social Development Advisory Board, Cultural Development Advisory Board, and Public Library Board. Often the member of a Board, Commission or Committee will be involved in providing input and making recommendations for matters that affect the whole community.

COMMUNICATIONS & COMMUNITY RELATIONS

Major revisions have been made to increase the number of municipal services accessible via the Internet. "Report a Problem" is a very good example of how citizens can easily and almost instantly notify the City of problems in the community such as those associated with utilities, municipal works, parks, bylaw infractions and so on. The concern is directed immediately to the department that can deal with the issue. For instance, if someone reports a streetlight outage near their home, they can report it directly to Electric Utility Services via the Internet, so the problem can be rectified as soon as possible.

Other municipal information is available electronically to help citizens answer such questions as: "When is my Garbage Pickup?", "Where is the nearest Recycling Depot?", "Where do I vote?", "What lots are for sale?". Citizens frequently use the interactive electronic map of the City and often, prospective employees will use the City website to identify job opportunities and to submit an application for employment.

45,000 inquiries were made via the Internet regarding Employment Opportunities with the City.

On November 20th, 2002, staff from the City's Geographical Information Systems (GIS) Department took part in International GIS Day and provided citizens with an opportunity to gain an appreciation of GIS technology and how it is used to benefit the citizens of Medicine Hat. The City uses this sophisticated technology extensively in its municipal operations. It is used to generate maps and databases for most of the City's infrastructure. GIS allows users to view the geographical relationship between diverse data layers (for example, roads, gas lines, sewers, parks, buildings, electric distribution, right-of-ways, fire hydrants) as well as simultaneously being able to access

International GIS Day provided citizens with an opportunity to gain an appreciation of GIS technology and how it is used to benefit the citizens of Medicine Hat.

information on any or all layers on the screen. Currently, GIS in conjunction with participating departments helps maintain in excess of fifty different data layers for the city. A great deal of municipal information and e-services available via the Internet relies on the use of GIS technology.

New software technology has been developed to improve communications and business processes within the organization, and ultimately to better serve the citizens of this community. For example, a more sophisticated and flexible information system is being developed for processing and tracking development and building permits, which will benefit municipal departments and clients using the services. The first of three phases of development has been completed making information systems more effective. Internal processes are improved, benefiting clients in the end. Eventually, clients will be able to apply for a permit via the Internet.

Software has also been developed to create a more efficient interface between utility departments and the utility billing function resulting in improved communication between departments and enhanced business processes, not the least of which is more timely preparation of billing information for users of the City's utility services.

Environmental Stewardship

The City of Medicine Hat considers a healthy environment to be of key strategic, economic and social value to all residents. Council recognizes that while maintaining the quality of our natural environment represents a community obligation, municipal government must be a leader in responsible environmental decisions and actions. The City's environmental strategies revolve around focusing its collective knowledge, raising awareness of environmental issues, and most importantly, demonstrating its commitment through measurable action.

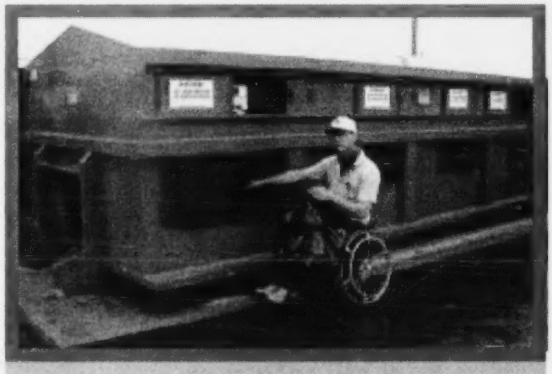
The City demonstrated its commitment to environmental stewardship through measurable action in two specific sewer upgrade projects in environmentally sensitive areas. One project involved the upgrade of 860 meters of sewer line in a coulee using pipe bursting technology instead of the more intrusive traditional method of open cut trenching. Pipe bursting mitigated environmental impacts by minimizing surface disturbance and enabled rapid re-use of the area and the enjoyment of the public.

The second sewer upgrade project involves constructing a new 2800 meter sewer line through Strathcona Island Park and across Police Point Park. This also involves crossing the South Saskatchewan River at two locations and Seven Persons Creek at one location. The services of professional biologists were used to conduct extensive aquatic and ecological impact assessments that helped define the construction methodologies to ensure no impact on aquatic habitat as required by the Federal Fisheries Act. The City worked closely with all levels of government, local stakeholders and special interest groups in the process of obtaining all the required federal, provincial and parks permits.

2002 saw the opening of the Kipling Street Residential Recycling Depot.

The City's recycling program was further enhanced by the addition of the Kipling Street Residential Recycling Depot. This recycling depot was constructed based on an improved design, which enhances the functionality of the depot, facilitates accessibility by persons with disabilities, and achieves cost efficiencies.

One of two sewer upgrade projects in 2002 involved crossing the South Saskatchewan river and Seven Persons Creek.



The new Kipling Street Residential Recycling Depot features bins that are wheel-chair accessible.

Environmental Stewardship

The City continues to be vigilant to ensure that residents receive safe, quality drinking water that meets all the performance measurement requirements of Alberta Environment and the Canadian Drinking Water Guideline performance measures. During 2002, a chlorine analyzer was installed in the water distribution system to provide an added measure for monitoring and recording quality of water used by residents.

The City also achieved environmental gains in its waste disposal program by meeting its commitment for a 4.5% annual reduction to municipal waste per person handled at the Landfill in 2002. It also improved its Landfill operation by constructing a special non-hazardous waste cell and expanding the sand dewatering operations.

Communities In Bloom is a Canadian beautification program that provides awards for the appearance, tidiness and visual appeal of Canada's neighborhoods, parks, open spaces and streets through the imaginative use of flowers, plants and trees. It involves the actions of citizens, municipal governments, local organizations and businesses.

2002 Communities in Bloom Committee
Back Row (l-r): Gail Insko, Lynne Graff, Leigh Smythe, Marion Sept, Anne McDonald, June Lastuka, Lorine Marshall and Trevor Rayner
Front Row (l-r): Sandra Lofgren, Kay Olsen and Anne Bernhardt.
Missing from picture: Frank & Kaja Westgarth, Joy Pede-Kalmring

The highest Bloom Rating that can be achieved through Communities in Bloom is 5 blooms. In 2002, not only did Medicine Hat receive the highest rating of 5 blooms, it also won the Nutrite Turf Award for the best turf in Canada.

Parks and Outdoor Recreation Department develops and maintains:

- 290 hectares of extensively developed parks
- 1,215 hectares of Environmental Reserve and natural areas
- 28,000 trees, and 38,000 bedding plants
- 84 km of paved and shale trails
- Park amenities including 83 playgrounds, 48 sports fields, 53 ball diamonds, 11 sets of tennis courts and 50 facilities
- Cemetery services including approximately 350 interments annually

The Parks Department is proud of:

- Helping the City achieve the highest rating of five blooms awarded by the Communities In Bloom program in 2002
- Contributing to the City's winning of the Nutrite Turf Award for the best turf in all of Canada in 2002.

Parks has several volunteer programs such as:

- Highways Volunteer Litter Clean Up Program
- Adopt-A-Rink
- Adopt-A-Flowerbed
- Communities In Bloom
- Community Parks Partnerships

Community Development

Council is dedicated to a balanced approach for developing and enhancing the overall well-being of our community. It is Council's desire to ensure that residents of this community can: continue to feel safe and have their property protected; enjoy a clean environment and attractive open spaces; participate in a diverse blend of cultural, recreational and leisure activities; avail themselves of organized and accessible modes of transportation; and find appropriate local social support mechanisms when circumstances warrant.

Medicine Hat proudly hosted a very successful 2002 Alberta Winter Games. The Games involved 2,592 participants from the eight sport zones throughout the province. Almost 3,000 volunteers provided the critical support needed to run the Games. The Games began with Opening Ceremonies attended by over 5,000 spectators and received extensive media coverage, including province-wide TV coverage. Games activities took place over four days, and included 22 sport events, and numerous cultural events and displays, held in 19 separate venues. A legacy of nearly $500,000 (one half million dollars) was left in Medicine Hat in facility upgrades and equipment. Plans are now underway to bid on hosting the 2007 Western Canada Summer Games. The bid proposal for the Summer Games will be submitted soon and a decision regarding the Summer Games location will be made this summer.

Young speedskaters give it their best at the 2002 Alberta Winter Games hosted in Medicine Hat.

The Esplanade is a "best-in-class" Arts & Heritage Centre scheduled to open in 2005, the Province's Cenntennial.

The Honourable Lois Hole, Lieutenant Governor of Alberta, presented Fire Service Exemplary Medals to Medicine Hat firefighters during a ceremony to recognize the outstanding service they have provided to this community.

The Medicine Hat Museum and Art Gallery celebrated its 50th Anniversary at a gala event at which time the Board announced that they would contribute $100,000 to The Esplanade project.

Significant progress has been made on The Esplanade Arts and Heritage Centre project in 2002. Sketches and background information can be viewed by visiting the City of Medicine Hat website www.medicinehat.ca. Agreements were finalized on the relocation of the Post Office and the remainder of the site was secured. City Council approved the Detailed Design Phase following community consultations and Project Steering Committee direction. As a result, work on the Construction Document Phase began. A detailed communications plan was mounted which involved an information booth with the architectural model of The Esplanade, visual images and information brochures at the fall Trade Show and a circuit of public venues throughout the city and the region. Website development, media interviews, a speakers' circuit and other means helped to convey information to the public about the vision of The Esplanade. The Esplanade Fundraising Committee developed a strategy for the fundraising campaign.

The project attracted significant funding from both provincial and federal governments.

Another exciting project in Community Development is the construction of the South Ridge Recreation Facility, in partnership with the Family YMCA, Medicine Hat Catholic Board of Education, Medicine Hat School District #76, and the Southridge Community Association. The recreation facility will feature an elevated running track, an indoor field house space that can be used for a variety of sports, a cardio/weight room, and a community kitchen. The YMCA will operate the recreation facility. In addition to many hours of consultation with the partner groups, consultations were held with sporting groups within the community and an open house was held in May 2002 to present the concept to the community and receive feedback on the concept. The project will go to tender in the spring of 2003 and construction is anticipated to be completed in 2004.

Guided by a fundamental principle that emergency services will be sustained at the appropriate level of quality and safety required by the citizens of Medicine Hat, City Council commissioned a Functional Planning Study to determine the appropriate response capability of emergency services required currently and in the future. The most pressing need identified was an additional emergency services station to alleviate the pressure on Fire and Ambulance Services resulting from significant geographic and urban expansion. A new emergency services station will cost approximately $3 million and will be completed in the fall 2004. A team closely associated with the Fire and Ambulance Services is working to develop an Organizational Plan for a new multi-skilled, combined fire and ambulance service that will be implemented in conjunction with those initiatives approved from the Functional Planning Study. The impetus to expanding emergency services and to seeking alternative delivery strategies was based on issues of growth—increased demand for services, better response times—as well as affordability.

In 2002 Protective Services:

- Responded to over 3,000 Fire Rescue and Co-medical calls and 6,000 Ambulance Service calls
- Performed 1,891 inspections, 55 fire investigations, 150 public education sessions, and 82 building / occupancy evaluations

Firefighter Rick Boksteyn, an ice rescue specialist, pulls a deer from the icy South Saskatchewan River in March of 2002. Medicine Hat firefighters rescued two deer using the Rescue Alive platoon device.

Disaster Services was pro-active in its efforts to further develop its emergency response plans. Disaster Services developed an emergency response to provide guidance and direction in the event of an airport emergency including aviation accidents at the airport or in the Medicine Hat region. It also developed a plan to manage reserve treated water in response to a disaster situation in which the City's water treatment plant and/or distribution systems suffer a major failure. Disaster Services developed a pandemic emergency response plan to manage the effects of a major outbreak of the influenza "A" virus that could result in high incidence of absenteeism of personnel and serious disruption of public services.

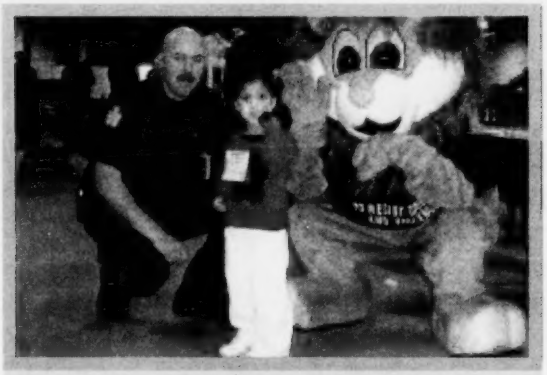
Community Development

Thirteen new auxiliary officers were recruited to the Medicine Hat Auxiliary Police Program in 2002. This program of volunteers is considered one of many valuable resources available to assist and support police officers on assigned calls. The Auxiliary Police Program is sometimes used as a stepping stone to employment in the law enforcement field, and for some citizens it is an opportunity to provide a service to the community.

2002 Crime Prevention Awards were presented to two deserving individuals. Doug Heine was honoured for the many contributions he has made over the years including helping the Crime Prevention Unit to develop the Wise Owls Program, a program to help protect seniors against fraud. Bryce Partridge was honoured for his hard work and leadership in helping Crescent Heights High School win national recognition for its Students Against Drinking and Driving (SADD) program.

After a successful first year, the School Resource Officer Program was expanded to include the Medicine Hat Catholic Schools. The constables become part of the school community, providing lectures, answering questions and creating an important liaison with the students and staff.

The Police Service introduced a chaplaincy program to provide support and guidance to police officers and other staff of the Police Services, and their families in time of need.



Auxiliary Constables Kevin Lucuik and Dean Kopperud (Darren the D.A.R.E. Lion) promote the D.A.R.E. program.

The City of Medicine Hat partnered with McGill University to develop affordable housing designs for seven sites in Medicine Hat.

Medicine Hat continues to work to resolve the issue of affordable housing in our community through a variety of initiatives. The Medicine Hat Community Housing Society has distributed federal/provincial funding in our community to approximately 10 different initiatives, ranging from funding for the Salvation Army Family Support Centre (homeless shelter) to funding Community Outreach Workers at the Medicine Hat Regional Social Housing Agency. In June 2002, community agencies, representatives from the construction community and interested individuals met with Dr. Avi Friedman to develop a Blue Print for Action to construct new housing and to develop action plans for other related housing issues. The City of Medicine Hat partnered with McGill University to develop conceptual designs for seven sites in Medicine Hat. These designs were presented to the public and City Council in January 2003. The interest generated by this initiative has been very positive, and requests for proposals will be sought to develop affordable housing in our community. In August 2002, the provincial government announced the availability of funding from the Affordable Housing Program, a federal/provincial program which will allocate up to $50,000 per unit for the construction of affordable housing. Consequently, the City of Medicine Hat submitted a proposal to the provincial government to construct 60 units over the next four years.

Of those people using the Family Leisure Centre, there was a 98% good or better satisfaction rating.

The Medicine Hat Family Leisure Centre has been providing recreation and leisure services to the community for two years now; recent surveys taken at the facility indicate a high level of satisfaction with both the facility and the services provided.

Senior Services operates 17 different support programs utilizing the expertise, vision, skills and abilities of 580 registered volunteers or 56,000 volunteer hours annually. The Provincial Government through the Stars of the Millennium Awards honored Jim Hogg and Hazel Brodin by presenting them the Humanitarian Civic Recognition Award for their outstanding contribution to our community and province. With the assistance of our volunteers, more than 1400 meals are delivered monthly through the Meals on Wheels Program, social companionship and telephone contact is provided to 135 isolated seniors, 20 Wise Owl workshops dealing with fraud prevention education were offered to 300 citizens, and assistance was also provided to help seniors complete more that 600 government financial benefits forms.

With the assistance of the Senior Citizens Advisory Committee, the City developed a Senior Services Strategic Plan in 2002. A major strategy identified in the plan is to attract younger seniors and to prepare for the "baby boomer" generation. A Leisure Services Study was conducted to address this strategy. Additional human resources have been added to provide outreach services for seniors in the community, by informing and referring them to available services to meet their needs. Since the 1997 Senior Services Study, the number of individuals using the Veiner or Strathcona Centres more than once a week has increased by 19%. Close to 79% of the seniors were satisfied with the programs and services offered.

Medicine Hat Transit continues to move towards its goal of having a fully accessible public transit system by 2004. Transit took delivery of three accessible ELF buses to replace older units. A review of regular transit routes was conducted which included input from the Transit Advisory Committee and from public forums. Modifications to the existing routes will be implemented in the spring of 2003. Transit continues to liaise with youth and seniors groups, educational institutions, assisted care and health facilities and other organizations to better serve the transportation needs of our citizens.

Medicine Hat Transit:

- In 2002, Medicine Hat Transit carried over 910,000 passengers on public transit
- The Special Transit service completed nearly 80,000 trips transporting persons with disabilities within the Medicine Hat area
- Operates Monday – Saturday from 6:45 am to 10:45 pm and traveled over 1,000,000 km last year

City of Medicine Hat staff receive computer training at the Electric Building training room

The City of Medicine Hat is proud of its diverse and dedicated workforce. Council understands that excellent service to the community starts with a skilled and motivated staff and strives to be an employer of choice as part of its vision of being a community of choice. A commitment to help employees achieve their full potential includes strategies focused on training and development, employee recognition, and empowering staff with pertinent information.

There continues to be a strong desire to invest in personnel initiatives aimed at sustaining superior performance within the organization. The results of the 2002 employee survey show that some positive changes were effected since the last one conducted in 2000. Some of the increase in staff satisfaction can be attributed to initiatives having a positive impact on the workplace environment. Suggestions for further improvements to the workplace were also included in this most recent survey.

The City has adopted the Organizational Competency Model to help employees be the best that they can be at their job. It emphasizes the development of leadership skills and other competencies and is made up of four layers. The first, Personal Mastery, builds on the belief that leadership starts from within. Next is Team Leadership for managers and supervisors. The third is Organizational Leadership for senior and executive staff. The final layer, Community Leadership, focuses on the needs of those served by the City and competencies for dealing with the external environment.

Personal Mastery leadership training continued and has now been received by more than 250 employees since the program's inception. Team Leadership is now in progress with Work Group Leader training for those leading and supervising workgroups. During 2003 the third level, Organizational Leadership, will be undertaken. The focus will be on competencies required by senior managers to provide direction for the organization and to further strengthen the working environment so that every employee can maximize his/her contribution towards fulfilling the City's Mission as well as their own career aspirations.

During 2002, the City was again pro-active in its approach to providing a safe and healthy working environment for its employees. Besides regularly scheduled departmental safety meetings, several other initiatives focused on the safety and well-being of staff. A total of 560 employees participated in one or more of the 42 safety training opportunities that were offered during the year and

Senior Services operates 17 different support programs utilizing the expertise, vision, skills and abilities of 580 registered volunteers or 56,000 hours annually.

2002 Retirees

Back Row (l-r): Ron Grover, Charlie Hirsch, Clayton Adams, Dan Cornet, Wayne Faas, Howard Schneider

Front Row (l-r): Loen Holte, Ken Graff, Linda Chapman, Mayor Garth Vallely, Howard Fode, Dennis Martin, Martin Voeller

Missing: Lavinia Haddock, Eugene Beaupre, Harold Matson, David Harris, Kenneth Kuss

30 & 35 Year Milestone
Service Hour Milestone Recipient

Back Row (l-r): Gerald Rayner (30 Years), Gerald Barth (30 Years), Don Reinhardt (30 Years), Bob Wanner (30 Years), Leroy Hammel (30 Years).

Front Row (l-r): Rob Reynolds (30 Years), Fredrick Beaupre (30 Years), Darlene Engle (19,500 Hours of Service), Mayor Garth Vallely, Ed Gallup (35 Years), Howard Schneider (35 Years).

Missing: Art Pinnell (30 Years), Stan Insko (30 Years), Ernie Van (35 Years), Brenda Hazelaar (19,500 Hours of Service), Dave Keeler (19,500 Hours of Service), Harold Matson (23,400 Hours of Servie), Barry Wahl (31,200 Hours of Service)

another 94 employees participated in health and safety orientation for new employees.

Environmental Health and Safety also conducted 24 safety evaluations to help departments identify areas of strength and weakness in managing occupational safety in the workplace. A formal external safety audit of the entire organization was also conducted.

Not only was the City successful at meeting external safety standards and getting "passing marks", it also retained its "Partnerships in Health and Safety Certificate of Recognition". The safety audit also provided valuable information to further strengthen the City's Health and Safety Program. A Health and Safety Management & Loss Prevention Handbook was prepared and distributed to all employees as a way of promoting safe and healthy practices in the workplace.

An Employee Benefits Review was initiated as a joint labour/management project to review existing group benefits. The review process included the help of several focus groups enabling the direct input of 95 staff.

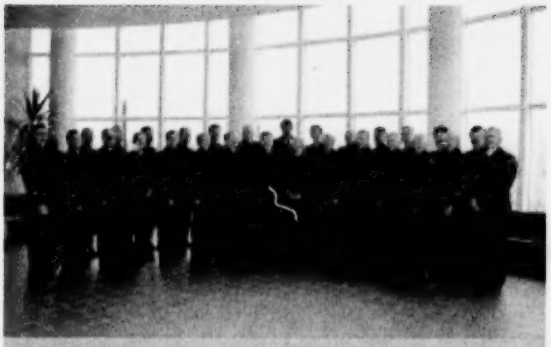
Progress was made towards strengthening labour relations. This helped the City in its efforts to successfully reach contract settlements with the International Association of Fire Fighters (IAFF), the Police Association, the International Brotherhood of Electrical Workers (IBEW-Production) and the Canadian Union of Public Employees (CUPE).

25 Year Service Milestone Recipients

Back Row (l-r): Joe Janisch, Clayton Adams, Bob Tetz, Vern Schneider, Floyd Peterson

Front Row (l-r): Harvey Fleck, Blaine Kelm, Mayor Garth Vallely, Alex Belinsky, Wayne Perehudoff, Bob Ledarney

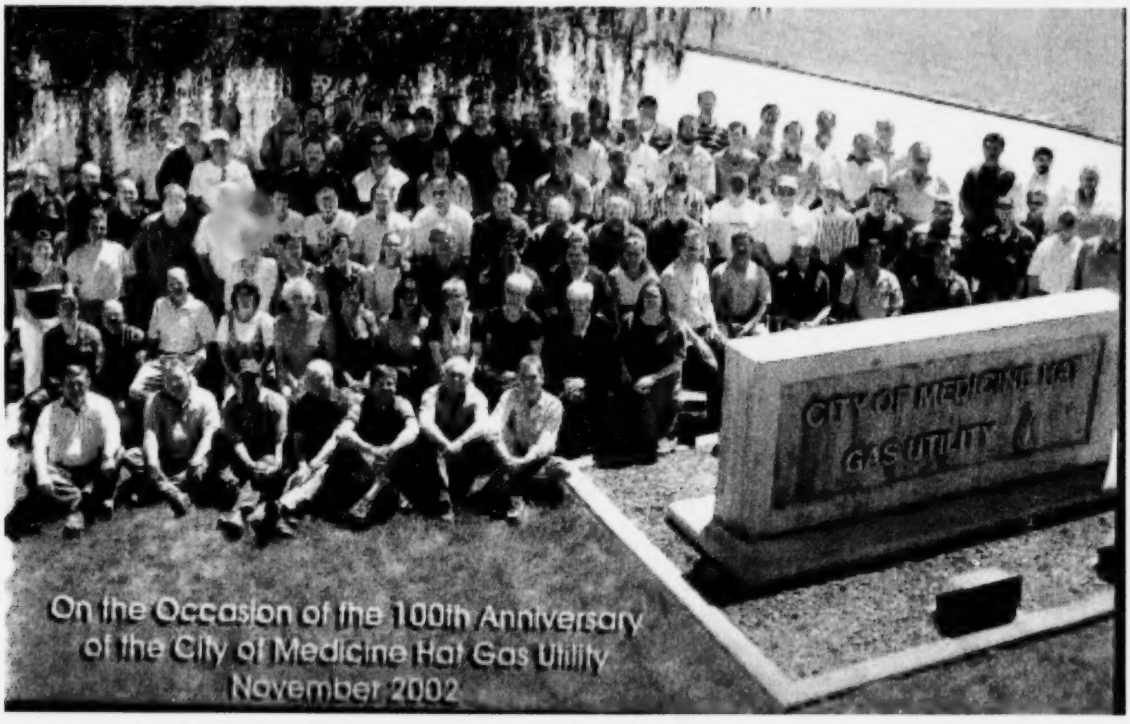
Missing: Bob Gaetz, Bruce Sandford, Brian Vossler, Gordon Marsh, Terry Bush, Al Lannon, Randy Stotz, Randy Zaiser, Emil Heitrich, Zane Weber

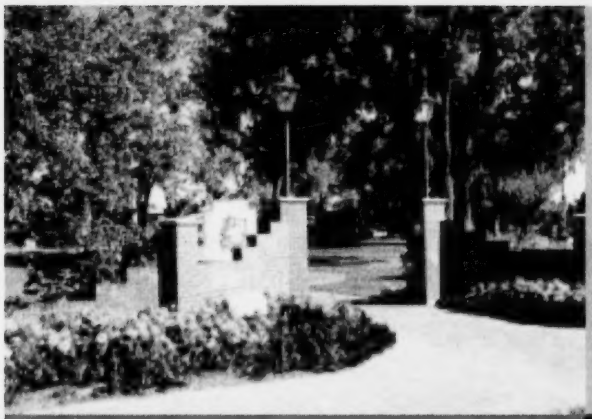


Exemplary Fire Service Medal Recipients

At a special ceremony held at City Hall on October 25th, 2002, 36 of Medicine Hat's Fire Service members received Exemplary Service Medals presented by the Honourable Lois Hole, Alberta's Lieutenant Governor.

Eight fire officers, including four recently retired members, received *30 Years or More* medals. 28 officers and fire fighters received *20 Years or More* medals.





Medicine Hat
The Gas City

2002 Treasurer's Report

TREASURER'S REPORT FOR THE YEAR ENDING DECEMBER 31, 2002

The residents and businesses of the City of Medicine Hat continue to benefit from sound local government. The City has not only maintained excellent programs and services throughout 2002, but also continues to extend services to developing areas and provide additional amenities and new programs to enhance the quality of life for all Medicine Hatters.

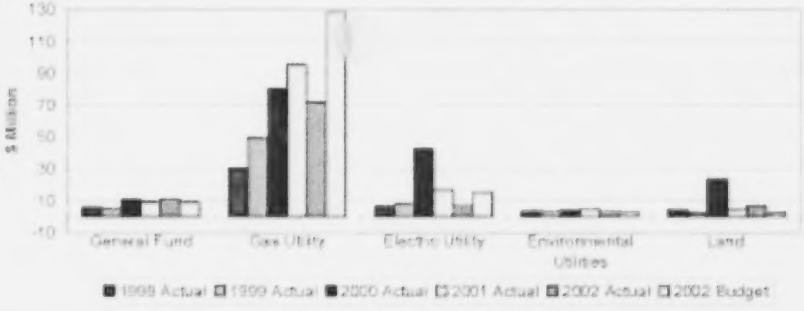
While doing so, the City constantly strives to be fiscally responsible in its operations. It continues to manage expenditures and maximize the benefit of its utility operations for both taxpayers and ratepayers alike. This is demonstrated by annual comparisons that constantly reflect favourably upon Medicine Hat's status as one of the lowest-cost places to live in Canada in terms of municipally levied taxes, rates, and fees.

The financial highlights that follow demonstrate continued progress towards Council's priority of Fiscal Responsibility. Full financial disclosure is available through the 2002 Financial Report that can be obtained through the City Clerk's Office at the City of Medicine Hat.

2002 OPERATING RESULTS

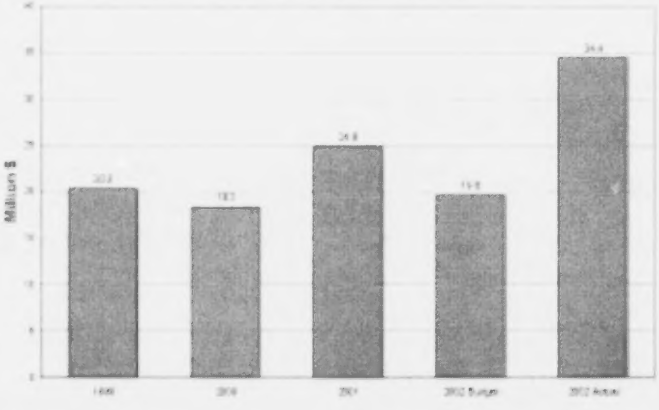
On a consolidated basis, all combined operating activities resulted in excess revenues over expenditures totaling $79.5 million in 2002. This was the net result of combined revenues totaling $211.4 million (budget comparative was $282.4 million) netted against expenditures totaling $131.9 million (budget comparative was $148 million). However it is important to note that after Transfer to Capital totaling $27.1 million and to Reserves totaling $44.1 million, the resulting change to the Consolidated Operating Fund balance was actually an increase of $9.6 million dollars. As a result the closing operating fund balance or "consolidated surplus" increased from $24.8 million in 2001 to $34.4 million in 2002.

Net Revenue from Operations
(Before Capital & Interfund Transfers)



On an individual fund basis, both Gas and Electric Utilities showed a surplus, despite low Electric Power Pool sales and a reduction of 22% in the average sales price for gas ($3.64/GJ actual vs. $4.63/GJ budget). The Gas Utility earned a total sales income of $114.8 million, which was 36% lower than budget, as prices for gas sales were lower than anticipated and gas volumes were off 12%. Revenues were also lower as a result of a net loss in the Subsidiary of $8.5 million primarily as a result of a ceiling test write down related to resource properties. The Electric Utility

Consolidated Year-end Operating Fund Balance

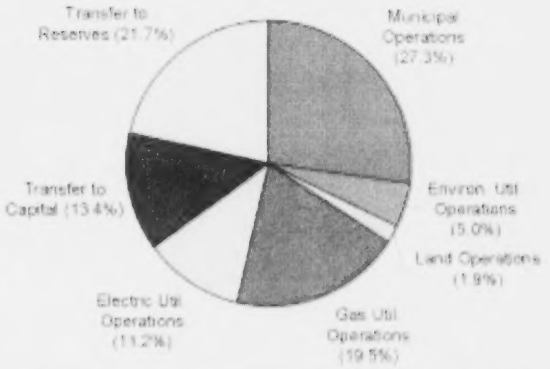


generated sales income of $53 million, 34% lower than budget. Environmental Utilities considered as a whole, report sales revenues of $17.4 million or 5% more revenue than budget. Water Sales were down as a result of unseasonable rainfalls, and the closure of a major industrial plant, while Sewer and Solid Waste reported higher than anticipated revenues related to residential customer growth and increased revenue from non-traditional landfill sources. Land Sales reported $15.1 million in sales revenues, or 56% more than budgeted, as a result of increased demand for residential lots. Tax-Rate Supported operations reported a surplus of $2 million which is 3% of the total budgeted expenditures of $63.5 million. This surplus was achieved through higher than budgeted tax revenues, increased revenues related to building permits and taxes and lower than budgeted expenditures in a number of departments.

WHERE THE MONEY WAS SPENT

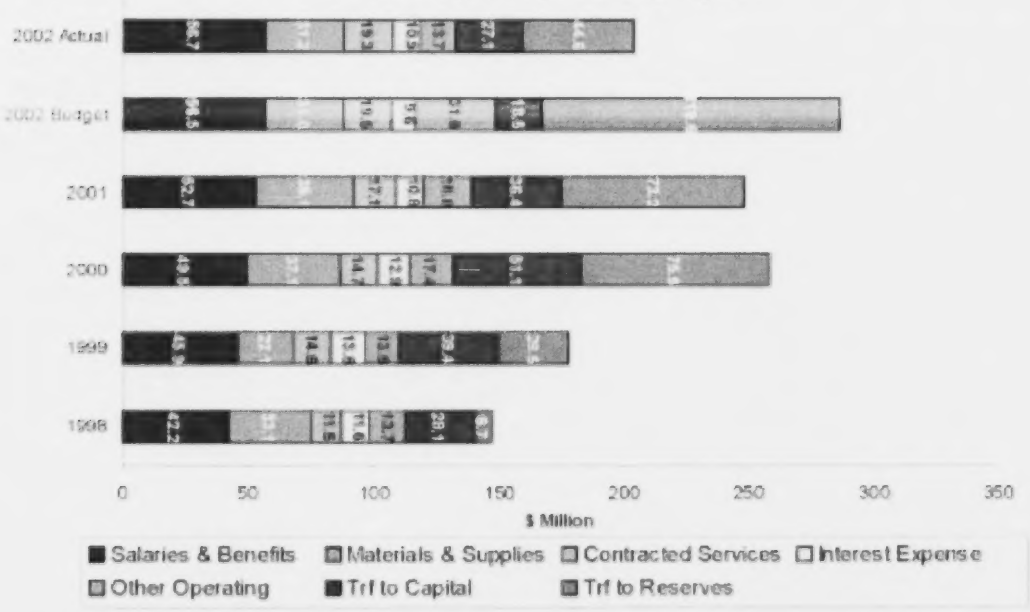
In addition to the $131.9 million spent in total on all operations in 2002 another $27.2 million and $44.1 million were transferred to capital and reserves respectively for a total of $203.2 million. Notable is the fact that operations accounted for 65% of all expenditures and of that, tax-supported operations accounted for 27% of the total.

Use of Operating Funds ($203.2 Million)

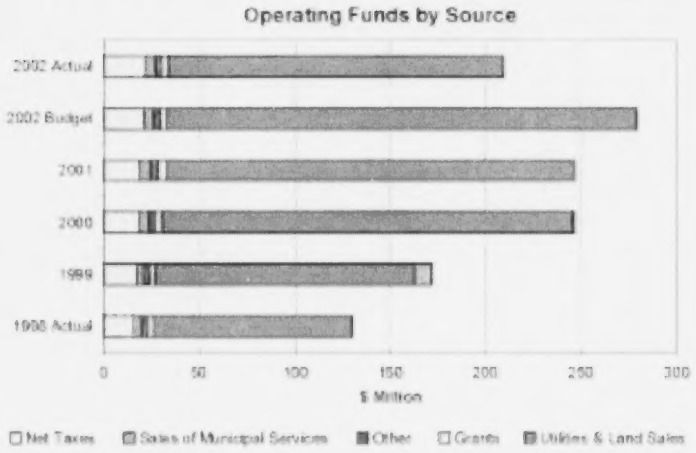


Within the 35% of expenditures related to capital and reserve transfers, $37.4 million related to gas sales revenues was transferred to the Gas Depletion Reserve for future natural gas reserve replacements. $2.7 million was transferred to the Fleet Replacement Reserve and $4 million was transferred to the Municipal Infrastructure Reserve.

Use of Operating Funds by Object



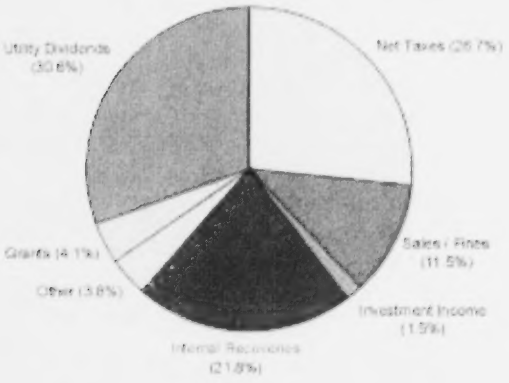
These reserves are used to fund future municipal infrastructure improvements and fleet purchases, thereby reducing debenture borrowing requirements



WHERE THE MONEY CAME FROM

Of the total consolidated operating revenue of $211.4 million, 82% or $175.7 million was derived from Utilities and Land sales. Much of the revenues generated in Gas operations are achieved through sales to consumers outside of the City.

2002 Municipal Operating Revenue Sources ($74.9 Million)



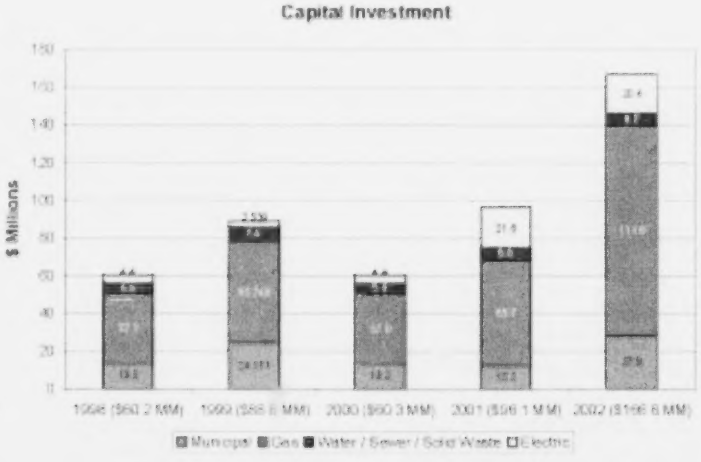
The proceeds of these sales are used to the benefit of all Medicine Hat residents and certainly help offset requirements for tax and utility rate increases within the City.

Based on non-consolidated financial statements the total operating revenue reported for municipal tax-supported activities is $74.9 million. This includes a dividend from Utility operations of $22.9 million or 31% of total General Fund revenues. Comparable figures for 2001 were $16.9 million and 25%. As part of Council's long-range plans, targeted growth in the annual dividend from Utilities is 3% annually.

Net municipal taxes provided another $20.0 million or 27% of total tax-supported operations.

2002 CAPITAL SPENDING

Capital investment during 2002 totaled just over $166.6 million. The majority of capital funds were spent within the Gas Utility ($111.5 million) to acquire and develop property to sustain its gas reserve life index and maximize current production capabilities. Key projects within the other Utilities include Sewer Force Main -$3.3 million, Southwest



Sewer Trunk System - $1.6 Million and Electric Production LM6000 - $16.5 million; Over $27.8 million was spent on municipal projects including $2.5 million on Fleet purchases, $11.6 million on the Allowance Avenue Overpass and $3.3 million on The Esplanade.

Major sources of capital investment financing in 2002 included the following:

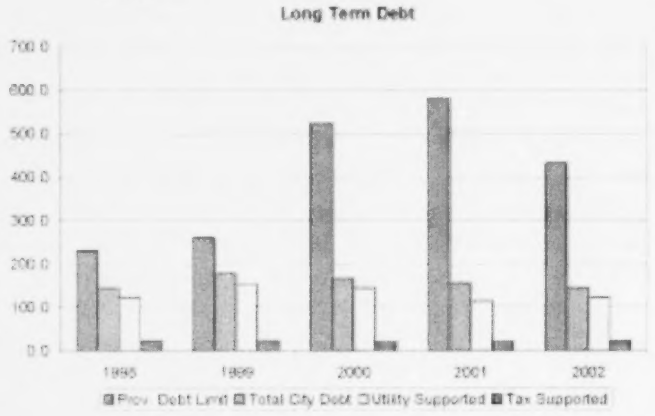
- Debenture issues: $18.9 million
- Transfers from Reserves: $123.7 million
- Transfers from Operating: $27.2 million
- Government Grants: $12.6 million

It is important to note that a total of $50 million in short term borrowing was used to finance a major gas acquisition. The funds were borrowed in late 2001 and early 2002 and of the total borrowed, $40 million was retired in 2002 and the remaining $10 million was retired in January of 2003.

Council's priorities regarding sustainable utilities and sound infrastructure require continued investment. The 2003-2005 Capital Improvement Plan calls for several major expenditures. In particular, the sustainability of the Gas Utility depends upon substantial reinvestments. Over $222 million is to be invested over the next three years in this utility alone to acquire gas reserves and to add to and improve production facilities. Electric Production calls for expenditures totaling $16.1 million to improve performance and reliability, meet existing and new environmental regulations and guidelines, and to handle growth. To meet the demand for residential, commercial and industrial development $26.1 million is to be invested over the next three years for the development of land for resale. On the Municipal side, major projects approved in prior years such as the new fire station ($3 million), South Ridge Recreation Facility ($4.8 million) and The Esplanade ($37 million) are to be completed over the next few years.

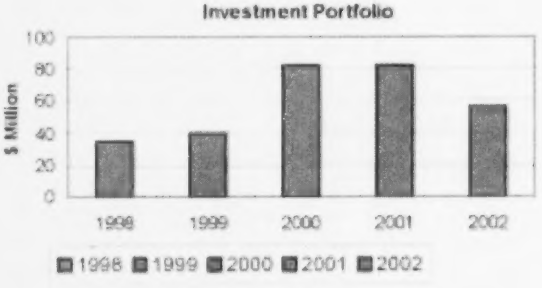
LONG TERM DEBT

Total long-term debt outstanding for the City increased $8.2 million to $144.2 million. Principal in the amount of $10.7 million was repaid. Of this repayment, $3.4 million relates to tax-supported debentures while the balance relates to utilities. The tax-side debt per capita increased from $405 to $421. The City borrowed $18.9 million during the year with $4.3 million related to municipal projects.



CASH AND INVESTMENTS

Surplus cash and funds that are earmarked for future purposes are maintained in an investment portfolio that is managed within strict policies approved by Council. Investments are made primarily in short-to medium-term banker's acceptances with the major chartered banks as well as provincial and federal bonds. Funds are managed with an overall objective of sustaining a yield that is



at least 80% of the Scotia McLeod Universe Bond Index.

The City's investment portfolio totaled $54.4 million as of December 31. This is a decline over 2001 when the statements reported $80.3 million. This reduction is a result of the 2002 capital projects, in particular the acquisition and development of Gas properties.

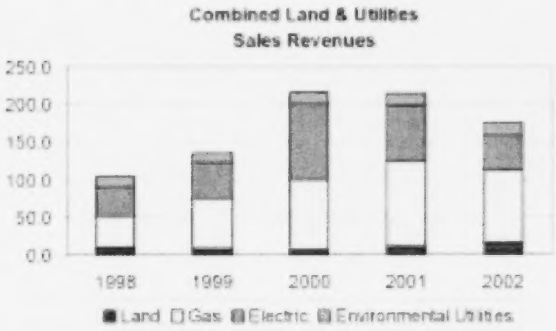
The City of Medicine Hat's investment return for the year ended December 31, 2002 was 4.27%, outperforming the benchmark index of 3.68%. The City's average portfolio return has outperformed the stated benchmark in eleven of the past twelve quarters.

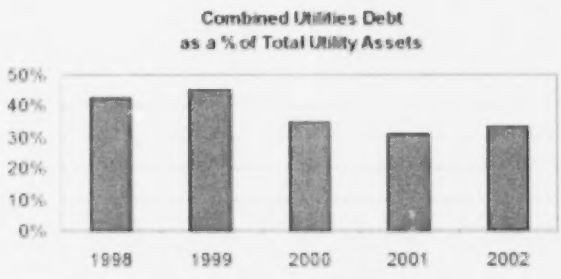
INVESTMENT IN SUBSIDIARY

To meet City Council's priorities with regard to sustainable utilities, a wholly-owned subsidiary of the City of Medicine Hat, Allied Oil & Gas Corp was formed. In January 2002, the City acquired the remaining shares of Allied Oil & Gas. The City then exchanged these shares for 100% interest in the Allied Partnership. This exchange of shares for assets moves the reserves closer to the City's 10-year Reserve Life Index target.

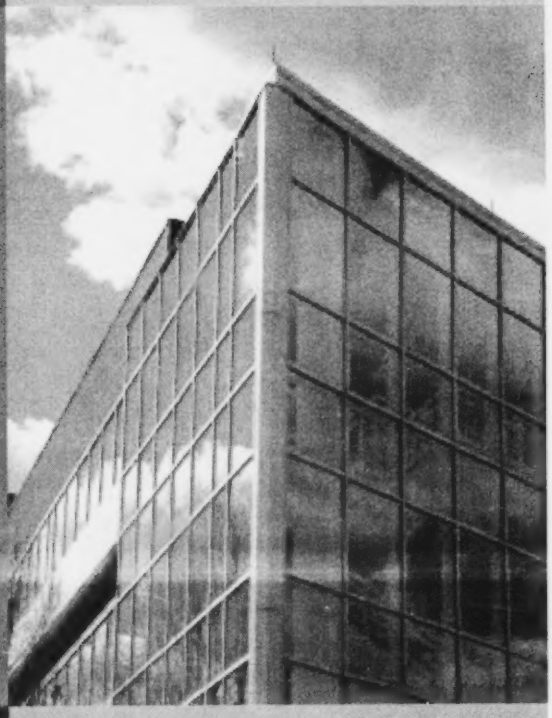
MEDICINE HAT UTILITIES

In Medicine Hat, the Gas City, our utilities not only represent "who we are" but their performance is key to our Medicine Hat Advantage.

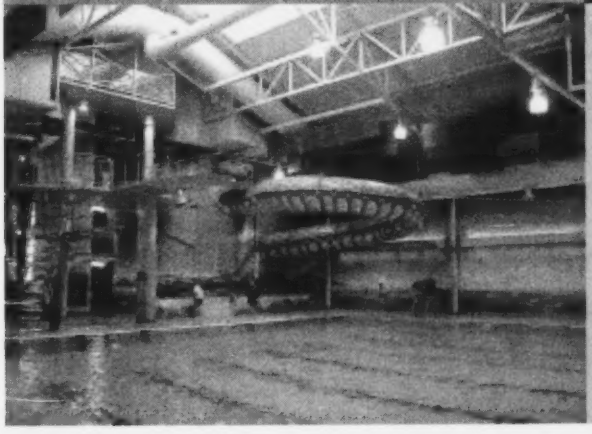




Medicine Hat
The Gas City



2002 Consolidated Financial Statements



MANAGEMENT'S REPORT

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of Management.

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They necessarily include some amounts that are based on the best estimates and judgments of Management. Financial data elsewhere in the report is consistent with that in the financial statements.

Management has developed and maintains and extensive system of internal control that provides reasonable assurance that all transactions are appropriately authorized, that assets are properly accounted for and safeguarded, that all transactions are accurately recorded and that financial records are reliable for preparation of financial statements. As well, it is the policy of the City to maintain the highest standard of ethics in all its activities.

Meyers Norris Penny LLP, our independent auditors have been appointed to express a professional opinion on the consolidated financial statements. Their report follows.

City Council, through its Audit Committee, comprised of three aldermen, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and independent auditors to discuss auditing and reporting on financial matters and to assure that management is carrying out its responsibilities. The auditors have full and free access to the Audit Committee and management.

Chief Administrative Officer

Commissioner of Corporate Services

AUDITOR'S REPORT

MEYERS NORRIS PENNY

To the Mayor andCouncil of the City of Medicine Hat

We have audited the consolidated statement of financial position of the City of Medicine Hat as at December 31, 2002 and the consolidated statement of financial activities with change in fund balances, including supporting schedules, and the consolidated statement of changes in financial position for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City of Medicine Hat as at December 31, 2002 and the results of its financial activities and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants.

Medicine Hat, Alberta
February 21, 2003

Meyers Norris Penny LLP
Chartered Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2002

(In thousands of dollars)

	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
ASSETS			
FINANCIAL ASSETS			
Cash	$ 726	$ 1,476	$ 7,240
Accounts Receivable (Net of Allowances) (Note 2)	31,755	21,536	35,059
Advances to Subsidiary (Note 3)	31,009	11,515	
Inventories for Resale (Note 4)	19,045	18,433	16,251
Investments, Loans and Advances (Note 5)	54,358	80,395	82,568
Deposits and Other Assets (Note 6)	1,164	1,137	538
TOTAL FINANCIAL ASSETS	138,057	134,492	141,656
PREPAID EXPENSES (Note 10)	771	6,688	1,205
INVESTMENT IN SUBSIDIARY OPERATION (NOTE 7, 8 & 9)		47,360	
PHYSICAL ASSETS			
Inventories	8,889	8,296	8,387
Plant, Property, and Equipment (Note 11)	773,035	654,782	629,041
TOTAL PHYSICAL ASSETS	781,924	663,078	637,428
TOTAL ASSETS	**$ 920,752**	**$ 851,618**	**$ 780,289**
LIABILITIES AND MUNICIPAL EQUITY			
LIABILITIES			
Bank Indebtedness (Note 12)	$ 1,616	$	$
Trade Accounts Payable	15,157	10,008	12,077
Accrued Liabilities (Note 13)	17,037	15,059	19,179
Short Term Debt (Note 14)	9,984	19,809	
Long Term Debt - Alberta Municipal Finance Corporation (Note 15)	144,166	135,949	165,103
Other Long Term Liabilities (Note 16)	21,162	15,910	13,657
TOTAL LIABILITIES	209,122	196,735	210,016
LOSS IN SUBSIDIARY (Note 8)	8,224		
MUNICIPAL EQUITY			
Equity in Physical Assets	628,869	518,587	483,683
Capital Fund (Schedule 1)	13,692	5,477	4,087
TOTAL CAPITAL FUND	642,561	524,064	487,770
OPERATING FUND (Schedule 2) (Note 21)	34,392	24,812	18,325
RESERVE FUND (Schedule 3) (Note 17)	26,453	106,007	84,178
TOTAL MUNICIPAL EQUITY	703,406	654,883	570,273
TOTAL LIABILITIES AND MUNICIPAL EQUITY	**$ 920,752**	**$ 851,618**	**$ 780,289**

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2002

(In thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
REVENUE				
NET TAXES (Schedule 4)	$ 21,060	$ 21,605	$ 19,364	$ 19,257
SALE OF SERVICES				
General Government	4,942	5,177	4,674	4,194
Gas	139,098	96,188	112,707	93,036
Electric	75,385	47,778	74,475	101,268
Water	6,808	6,568	7,187	6,906
Sewer	5,516	5,561	5,261	5,243
Solid Waste	3,656	4,576	3,903	3,246
Land and Subdivision Development	9,670	15,050	11,183	5,748
Medicine Hat Public Library	84	86	87	94
OTHER INCOME				
Investment	6,511	5,338	5,292	3,690
Income (Loss) from Subsidiary (Note 6)		(6,485)	256	
Licences, Fines and Penalties	2,947	3,570	3,186	2,742
Insurance Recoveries	50	100	102	1,050
Developers Levies	660	1,994	1,381	2,000
Proceeds from Sale of Assets (Note 11)			33,715	
Other	4,453	6,011	4,424	7,772
GOVERNMENT TRANSFERS (Schedule 5)				
Municipal Assistance Grant	1,237	1,237	1,237	1,237
Grants - Federal and Provincial	5,551	14,677	5,018	3,805
Debenture Interest Subsidy	110	98	124	153
TOTAL REVENUE	287,760	227,129	293,576	261,443
EXPENDITURES (Schedule 6)				
General Government	72,607	82,010	62,101	59,107
Gas	142,455	151,116	105,174	69,207
Electric	27,350	43,216	46,304	25,996
Water	4,450	4,559	6,379	5,875
Sewer	7,638	9,088	7,739	5,491
Solid Waste	3,064	3,068	2,833	3,989
Land and Subdivision Development	7,228	3,810	2,759	1,397
Medicine Hat Public Library	1,482	1,620	1,417	1,363
TOTAL EXPENDITURES	266,274	298,487	234,706	192,425
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	21,486	(71,358)	58,870	69,018
Debt Issued	11,572	18,922	7,831	3,912
Debt Repayment	(9,900)	(10,704)	(36,995)	(15,346)
Contributed Surplus		1,381		
CHANGE IN FUND BALANCES	**$ 23,158**	**$ (61,759)**	**$ 29,706**	**$ 57,584**

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2002

(In thousands of dollars)

	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
CASH PROVIDED BY (USED IN):			
OPERATIONS			
Excess (Deficiency) of Revenue Over Expenditures	$ (71,358)	$ 58,870	$ 69,018
(Income) Loss from Subsidiary	8,485	(256)	
Decrease (Increase) in Accounts Receivable	(10,219)	13,522	(15,869)
Decrease (Increase) in Inventory for Resale	(612)	(2,182)	(699)
Decrease (Increase) in Deposits & Other Assets	(27)	(600)	113
Decrease (Increase) in Prepaid Expenses	5,917	(5,483)	
Increase (Decrease) in Accounts Payable and Accrued Liabilities	7,129	(6,187)	6,073
Increase (Decrease) in Other Long Term Liabilities	5,252	2,262	2,814
NET CASH FROM (USED BY) OPERATIONS	(55,433)	59,946	61,450
INVESTING			
Investment in Subsidiary	(49,718)	(47,360)	
Short Term Debt Issued	(9,825)	19,809	
Decrease (Increase) in Investments, Loans and Advances	26,037	2,429	(43,936)
Redemption of Shares in Subsidiary (Note 7)	98,442		
Decrease (Increase) in Advances to Subsidiary	(19,494)	(11,515)	
Decrease (Increase) in Inventories	(593)	91	(563)
NET CASH FROM (USED BY) INVESTING	44,849	(36,546)	(44,499)
FINANCING			
Long-Term Debt Issued	18,922	7,831	3,912
Long-Term Debt Repaid	(10,704)	(36,995)	(15,346)
NET CASH FROM (USED BY) FINANCING	8,218	(29,164)	(11,434)
CHANGE IN CASH	(2,366)	(5,764)	5,517
CASH AT BEGINNING OF YEAR	1,476	7,240	1,723
CASH AT YEAR END	**$ (890)**	**$ 1,476**	**$ 7,240**
Cash consists of the following:			
Cash	$ 726	$ 1,476	$ 7,240
Bank Indebtedness	(1,616)		
Total	**$ (890)**	**$ 1,476**	**$ 7,240**

CONSOLIDATED CAPITAL FUND
SCHEDULE 1
FOR THE YEAR ENDED DECEMBER 31, 2002
(in thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
REVENUE				
Government Transfers	$ 3,537	$ 12,598	$ 2,786	$ 1,931
Developers Levies	660	1,990	1,381	2,000
Proceeds from Sale of Assets			33,715	
Other	1,097	1,179	1,023	846
TOTAL REVENUE	5,294	15,767	38,905	4,777
EXPENDITURES				
General Government	19,631	27,801	12,025	13,130
Gas	88,011	111,550	55,673	37,048
Electric	5,210	20,410	21,569	4,443
Water	800	467	1,872	1,733
Sewer	3,750	5,867	4,432	2,109
Solid Waste	635	324	378	1,747
Land	4	2		446
Medicine Hat Public Library	190	196	216	184
TOTAL EXPENDITURES	118,231	166,617	96,165	60,840
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(112,937)	(150,850)	(57,260)	(56,063)
NET INTERFUND TRANSFERS				
Reserve Fund	91,235	123,660	51,379	17,128
Operating Fund	20,030	27,187	36,435	51,573
DEBT TRANSFERS				
Debt Issued	11,572	18,922	7,831	3,912
Debt Payments	(9,900)	(10,704)	(36,995)	(15,346)
CHANGE IN CAPITAL FUND		8,215	1,390	1,204
CAPITAL FUND AT BEGINNING OF YEAR	5,477	5,477	4,087	2,883
CAPITAL FUND AT END OF YEAR	**$ 5,477**	**$ 13,692**	**$ 5,477**	**$ 4,087**

CONSOLIDATED OPERATING FUND
SCHEDULE 2
FOR THE YEAR ENDED DECEMBER 31, 2002

(In thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
REVENUE				
NET TAXES (Schedule 4)	$ 21,090	$ 21,605	$ 19,364	$ 19,257
SALE OF SERVICES				
General Government	4,942	5,177	4,674	4,194
Gas	139,098	96,188	112,707	93,036
Electric	75,385	47,778	74,475	101,266
Water	6,808	6,568	7,187	6,906
Sewer	5,536	5,561	5,261	5,243
Solid Waste	3,658	4,576	3,903	3,248
Land and Subdivision Development	9,670	15,060	11,183	5,748
Medicine Hat Public Library	84	88	87	94
OTHER INCOME				
Investment Income	6,511	5,338	5,292	3,690
Income (Loss) from Subsidiary (Note 8)		(8,485)	256	
Licences, Fines and Penalties	2,947	3,570	3,196	2,742
Insurance Recovery	50	100	102	1,050
Other	3,396	4,839	3,401	6,927
GOVERNMENT TRANSFERS				
Municipal Assistance Grant	1,237	1,237	1,237	1,237
Grants - Federal and Provincial	2,014	2,076	2,232	1,874
Debenture Interest Subsidy	110	98	124	153
TOTAL REVENUE	282,486	211,382	254,671	256,667
EXPENDITURES				
General Government	52,976	54,210	50,077	45,977
Gas	54,444	39,568	49,501	52,159
Electric	22,140	22,807	24,734	21,553
Water	3,650	4,094	4,507	4,142
Sewer	3,898	3,221	3,307	3,382
Solid Waste	2,429	2,741	2,456	2,242
Land and Subdivision Development	7,224	3,926	2,758	961
Medicine Hat Public Library	1,292	1,305	1,201	1,180
TOTAL EXPENDITURES	148,043	131,870	138,541	131,586
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	134,423	79,492	116,130	125,081
NET INTERFUND TRANSFERS				
Capital Fund	(20,030)	(27,187)	(36,435)	(51,573)
Reserve Fund	(119,587)	(44,106)	(73,208)	(75,499)
TOTAL NET INTERFUND TRANSFERS	(139,617)	(71,293)	(109,643)	(127,072)
CONTRIBUTED SURPLUS		1,381		
CHANGE IN OPERATING FUND	(5,194)	9,580	6,487	(1,991)
OPERATING FUND AT BEGINNING OF YEAR	24,812	24,812	18,325	20,316
OPERATING FUND AT END OF YEAR	**$ 19,618**	**$ 34,392**	**$ 24,812**	**$ 18,325**

CONSOLIDATED RESERVE FUND
SCHEDULE 3
FOR THE YEAR ENDED DECEMBER 31, 2002
(In thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
RESERVE FUND AT BEGINNING OF YEAR	$ 106,007	$ 106,007	$ 84,178	$ 25,807
NET INTERFUND TRANSFERS				
Operating Fund Transfer	119,587	44,106	73,208	75,499
Capital Fund Transfer	(91,235)	(123,660)	(51,379)	(17,128)
CHANGE IN RESERVE FUND	28,352	(79,554)	21,829	58,371
RESERVE FUND AT END OF YEAR (Note 17)	$ 134,359	**$ 26,453**	**$ 106,007**	**$ 84,178**

CONSOLIDATED TAXES LEVIED
SCHEDULE 4
FOR THE YEAR ENDED DECEMBER 31, 2002
(In thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
TAXATION				
Real Property Taxes	$ 33,549	$ 33,794	$ 31,625	$ 33,418
Linear Property Taxes	2,668	2,668	2,494	3,328
Government Grants in Lieu of Property Taxes	1,184	1,184	1,111	1,203
Special Assessments and Local Improvements	89	394	140	139
	37,490	38,040	35,370	38,088
REQUISITIONS				
Alberta School Foundation	13,585	13,585	13,238	15,713
Catholic Board Of Education	2,550	2,550	2,489	2,857
Cypress View Foundation	206	206	183	172
Business Exchange Levies	89	94	96	89
	16,430	16,435	16,006	18,831
NET TAXES	**$ 21,060**	**$ 21,605**	**$ 19,364**	**$ 19,257**

CONSOLIDATED GOVERNMENT TRANSFERS
SCHEDULE 5
FOR THE YEAR ENDED DECEMBER 31, 2002
(in thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
FEDERAL TRANSFERS				
Shared-Cost Agreements and Grants	$ 1,843	$ 1,563	$ 559	$ 283
PROVINCIAL TRANSFERS				
Municipal Assistance Grant	1,237	1,237	1,237	1,237
Shared-Cost Agreements and Grants	3,624	13,114	4,459	3,542
Debenture Interest Subsidy	110	98	124	153
	4,971	14,449	5,820	4,932
TOTAL GOVERNMENT TRANSFERS	**$ 6,814**	**$ 16,012**	**$ 6,379**	**$ 5,195**

CONSOLIDATED EXPENDITURES BY OBJECT
SCHEDULE 6
FOR THE YEAR ENDED DECEMBER 31, 2002
(in thousands of dollars)

	2002 BUDGET (UNAUDITED)	2002 ACTUAL	2001 ACTUAL	2000 ACTUAL
EXPENDITURES				
Salaries, Wages and Benefits	$ 56,466	$ 56,688	$ 52,711	$ 49,416
Contracted and General Services	19,514	19,268	17,102	14,648
Materials, Goods and Utilities	31,012	31,178	39,176	37,001
Provisions for Allowances	398	404	282	250
Bank Charges and Short Term Interest	36	927	106	80
Interest on Long Term Debt	9,603	9,856	10,862	12,898
Physical Assets Acquired	114,494	164,538	94,503	59,609
Other Operating Expenditures	31,204	13,551	18,302	17,283
Other Capital Expenditures	3,547	2,077	1,662	1,240
TOTAL EXPENDITURES	**$ 266,274**	**$ 298,487**	**$ 234,706**	**$ 192,425**

NOTES FOR THE YEAR ENDED DECEMBER 31, 2002
(In Thousands of Dollars)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the City of Medicine (the "City") are the representations of management prepared in accordance with local government accounting standards established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the City of Medicine Hat are as follows:

(A) REPORTING ENTITY

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and changes in financial position of the reporting entity. This entity, except for government business enterprises which are accounted for by the modified equity basis of accounting, includes all of the organizations that are owned or controlled by the municipality and are, therefore, accountable to City Council for the administration of their financial affairs and resources. They include the following:

(I) City General - activities associated with the provision of conventional municipal services including General Administrative Services, Protective Services (Fire, Police, Disaster Services and 911 Communications) and Public Services (Municipal Works, Community Development, and Parks and Outdoor Recreation).

(II) Utilities - self supporting activities which provide Electricity, Natural Gas, Water, Sewer and Solid Waste Services. Land and Subdivision Development operations are also treated as a utility for statement purposes.

The City has effective control over the Medicine Hat Public Library and the financial statements of this entity have been consolidated in these financial statements.

The City of Medicine Hat owns the physical assets related to ambulance services. Provision of these services is contracted to the Palliser Health Authority. The contract payment for provision of ambulance service is included with Protective Services expenditures. The value of the physical assets are included in the Consolidated Statement of Financial Position.

School administration is completely independent of City Council and is subject to control by the Provincial Government pursuant to the provisions of the *School Act*. The only relationship between the School Boards and the City is that the City is obligated to provide funds raised by taxes deemed necessary by the Province.

The schedule of taxes levied includes operating requisitions for the Alberta School Foundation, Catholic Board of Education, Cypress View Foundation, and amounts collected for the City Centre Development Agency that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties.
A schedule of these trust assets is included in Note 18.

Interdepartmental and organizational transactions and balances are eliminated.

Allied Oil & Gas Corp., a wholly owned subsidiary of the City, is accounted for using the modified equity basis, consistent with generally accepted accounting principles for government enterprises. Organizational transactions and balances are not eliminated.

(B) FUND ACCOUNTING

Municipal funds for General, Utilities and Land and Subdivision Development consist of the operating, capital and reserve funds. Proceeds from sales of land are recorded as operating fund revenues.

C) BASIS OF ACCOUNTING

1. Revenues

The accrual basis of accounting recognizes revenue in the period in which the transactions or events occurred that gave rise to the revenues.

2. Expenditures

Expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due, with the exception of pension expenditures as disclosed in Note 1 (G).

(D) GOVERNMENT TRANSFERS

Government transfers are recognized in the financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(E) INVESTMENTS

Portfolio investments purchased by the City of Medicine Hat are recorded at the lower of cost or net realizable value.The cost of investments includes the applicable amortization of premiums and discounts using the present value amortization method.

Investments in government business enterprises are accounted for using the modified equity basis of accounting. Under this basis, the accounting principles of the government business enterprises are not adjusted to conform to the City's accounting policies and inter-organizational transactions and balances are not eliminated.

(F) INVENTORIES

Inventories of materials and supplies, inventories for resale and gas in storage are valued at the lower of cost or net realizable value with cost determined by the average cost method.

Cost of land held for resale includes costs related to land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water, sewer, gas, electric, roads, sidewalks and street lighting are recorded as assets under their respective function.

(G) PENSION EXPENDITURE

The City participates in a multi-employer defined benefit pension plan wherein contributions for current and past service pension benefits are recorded as expenditures in the year in which they become due. The plan is accounted for as a defined contribution plan.

(H) PHYSICAL ASSETS

1. The City has valued General Fund physical assets purchased prior to December 31, 1978, at the net cost to the City and assets purchased and developed subsequent to that date at full cost.

2. Prior to January 1, 1989, all capital expenditures for major repair and maintenance projects were recorded as increases to physical assets. Since that date, capital expenditures of this nature are expensed in the year the expenditure is incurred. Major repairs and maintenance costs expensed in 2002 - $2,077 (2001 - $1,662).

Donated assets are recorded at estimated fair market value when acquired.

The City follows the full cost method of accounting for its petroleum and natural gas properties, whereby all costs associated with acquisition and development of petroleum and natural gas reserves are capitalized. Such costs include those related to lease acquisition, geological and geophysical activities, cost of drilling both productive and non-productive wells, equipment cost and technical consulting costs directly related to development. The City does not capitalize interest or administrative costs.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as adjustments to the net book value of resource properties, with no gain or loss recognized, unless the disposition would significantly alter the rate of depletion.

Government contributions for the acquisition of physical assets are recorded as a revenue source in the Consolidated Statement of Financial Activities and Consolidated Capital Fund - Schedule 1, and do not reduce the related physical assets costs.

(I) PREPAID LOCAL IMPROVEMENT CHARGES

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectable from property owners for work performed by the municipality.

(J) AMORTIZATION

The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants has not clarified how to record and report physical assets for local governments; therefore the City has not established a policy for recording amortization as an expenditure for General Fund Operations.

Physical assets in Electric, Water, Sewer, Solid Waste, Land, and non-resource plant, property and equipment in the Gas utility are amortized on a straight line basis over their estimated useful lives. Amortization is not charged to operations but Plant, Property and Equipment and Equity in physical assets have been reduced to reflect the amortized balance of physical assets. The following rates have been used for this calculation:

Engineering Structures	2.0% to 5.0%
Buildings	2.5% to 3.0%
Machinery, Equipment and Furnishings	5.0% to 10.0%

(K) DEPLETION

Oil and gas properties are depleted using the full cost method of amortization. Capitalized costs are amortized on the unit-of-production method based on estimated proven reserves as determined by independent engineers. For purposes of this calculation, oil is converted to gas on an energy equivalent basis. Cost of unproved properties are excluded from this calculation until proved reserves are established or until impairment occurs.

In applying the full cost method of accounting, capitalized costs less accumulated depletion are restricted from exceeding an amount equal to the estimated undiscounted future net revenues, based on year end prices (Natural Gas $4.46/MCF, Oil $28.65Bbl) less aggregate estimated future general and administrative, and financing costs derived from proven reserves or the cost less impairment of unproven properties.

(L) ALLOWANCES

Allowances for financial asset valuations are netted against the related asset. Increases in allowances are recorded as an expenditure.

(M) RESERVES FOR FUTURE EXPENDITURES

Reserves are established at the discretion of Council to set aside funds for future operating and capital expenditures. Transfers to and/or from reserves related to capital and operating fund activities are reflected on the Consolidated Schedules for the Capital, Operating and Reserve Funds.

(N) EQUITY IN PHYSICAL ASSETS

Equity in physical assets represents the net investment in total physical assets, after deducting the portion financed through debentures and capitalized leases.

(O) JOINT VENTURE ACCOUNTING

Some of the City's production activities related to oil and gas are contracted with other companies. These statements reflect only the City's proportionate interest in such activities.

(P) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

Amounts recorded for depletion and amounts used for the ceiling test calculations, are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. The City's reserve estimates are reviewed every three years, or upon major acquisition, by independent engineering firms. The last reserve analysis was done December 31, 2002. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods may be material.

(Q) OVER-LEVIES AND UNDER-LEVIES

Over-levies and under-levies arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property taxes. Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

(R) SITE RESTORATION AND ABANDONMENT – PETROLEUM AND NATURAL GAS SITES

The estimated cost of site restoration and abandonment for petroleum and natural gas properties is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration costs are accrued based on a unit-of-production basis of proven reserves for natural gas properties. The annual provision is reported as an expenditure in the operating fund and the accumulated provision is reported as a long term liability.

(S) LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Pursuant to the Alberta Environmental Protection and Enhancement Act, the City is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, and landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. This requirement is being provided for over the estimated remaining life of the landfill site based on usage.

NOTE 2: ACCOUNTS RECEIVABLE

(A) TAXES AND BUSINESS IMPROVEMENT LEVIES RECEIVABLE

	2002	2001
Current Taxes Receivable	$ 512	$ 417
Arrears Taxes Receivable	314	288
City Centre Development Agency	3	3
Less: Allowance for Tax Adjustments	(107)	
SUB-TOTAL	**$ 722**	**$ 708**

(B) ACCOUNTS RECEIVABLE

	2002	2001
Trade Accounts Receivable	$ 31,663	$ 21,375
Less: Allowance for Doubtful Accounts	(630)	(547)
SUB-TOTAL	**$ 31,033**	**$ 20,828**
TOTAL	**$ 31,755**	**$ 21,536**

NOTE 3: ADVANCES TO SUBSIDARY

	2002	2001
Non-interest bearing, unsecured, advances with no fixed terms of payment	$ 661	$
Note bearing interest at prime plus 1% due on demand	30,348	11,515
TOTAL	**$ 31,009**	**$ 11,515**

NOTE 4: INVENTORIES FOR RESALE

	2002	2001
Concessions	$ 33	$ 34
Gas in Storage	2,800	2,761
Land and Property	16,212	15,638
TOTAL	**$ 19,045**	**$ 18,433**

NOTE 5: INVESTMENTS, LOANS AND ADVANCES

	2002		2001	
	Cost	Market Value	Cost	Market Value
Federal Government & Agencies	$ 8,007	$ 8,329	$ 7,868	$ 8,186
Provincial Government & Agencies	29,741	30,627	27,734	28,214
Canadian Banks	12,174	12,550	39,293	40,361
Others	4,436	4,475	5,500	5,500
TOTAL	**$ 54,358**	**$ 55,981**	**$ 80,395**	**$ 82,261**

These investments bear interest rates from 2.65% to 10.25% and mature in periods 2003 through 2027. The investments have an average expected yield of 4% and an average term of 3.96 years to maturity.

NOTE 6: DEPOSITS AND OTHER ASSETS

	2002	2001
Tax Requisition Over Levies	$ 184	$ 179
Postage	4	2
Refundable Containers	44	52
Operating Deposits	92	342
Electric Reels	96	79
Gas Royalty Deposits	678	483
Gas Joint Venture Deposits	66	
TOTAL	**$ 1,164**	**$ 1,137**

NOTE 7: ACQUISTION OF ALLIED OIL & GAS CORP.

On October 15, 2001, 912212 Alberta Ltd was incorporated under the Alberta Business Corporations Act. 912212 Alberta Ltd. is a wholly owned subsidiary of the City of Medicine Hat (the "City").

On January 28, 2002, 912212 Alberta Ltd. completed its step acquisition of 100% of the outstanding shares of Allied Oil & Gas Corp. its wholly owned subsidiary, Backer Petroleum Ltd., and their combined 100% interest in the Allied Partnership. Total cash consideration of $58,123 net of $1,364 cash acquired, was determined based on the average market price of Allied Oil & Gas Corp.'s common shares over a one-week period before the terms of the acquisition were announced.

On January 29, 2002 and January 30, 2002, Allied Oil & Gas Corp. disposed of 99% of its interest in Allied Partnership with the City acquiring this interest.

NOTES FOR THE YEAR ENDED DECEMBER 31, 2002
(In Thousands of Dollars)

On January 30, 2002, 912212 Alberta Ltd amalgamated, under the Alberta Business Corporations Act, with Allied Oil & Gas Corp. and Backer Petroleum Ltd. The amalgamated corporation retained the name Allied Oil & Gas Corp. (the "Company").

On February 1, 2002, the Company redeemed a portion of its preferred shares. The redemption was satisfied through the distribution of the remaining 1% interest in Allied Partnership to the City. Effective February 1, 2002, the partnership ceased to exist.

The following table summarizes the estimated fair market value (FMV) of the assets acquired and liabilities assumed at each step purchase date.

	74.10% Nov 25/01 FMV	5.08% Dec 7/01 FMV	20.82% Jan 28/02 FMV	100% Total FMV
Cash	$	$ 55	$ 1,309	$ 1,364
Other Assets	4,874	229	1,507	6,610
Resource Properties	93,594	6,387	21,535	135,877
TOTAL ASSETS	**98,468**	**6,671**	**24,351**	**129,490**
Liabilities	35,889	2,387	9,426	47,702
Future Income Tax Liabilities	18,500	1,259	2,542	22,301
TOTAL LIABILITIES	**54,389**	**3,646**	**11,968**	**70,003**
NET ASSETS ACQUIRED	**$ 44,079**	**$ 3,025**	**$ 12,383**	**$ 59,487**

The following table describes the transactions between the City and the Company:

Company Shares Acquired (Redeemed):	**# Shares**	**Value**
Class A Preferred Shares - November 25, 2001	44,079	$ 44,079
Class A Preferred Shares - December 7, 2001	3,025	3,025
	47,104	$ 47,104
Class A Preferred Shares - January 28, 2002	43,744	43,744
Subscription for Additional Class A Share - January 28, 2002	7,600	7,600
Class A Preferred Shares - January 29, 2002	(71,485)	(71,485)
Class A Preferred Shares - January 30, 2002	(25,973)	(25,973)
Class A Preferred Shares - February 1, 2002	(984)	(984)
DECEMBER 31, 2002 BALANCE	**6**	**$ 6**

NOTE 8: SUBSIDIARY OPERATIONS

The following table provides condensed supplementary financial information reported separately by Allied Oil & Gas Corp. at December 31, 2002.

	Dec 31, 2002	Dec 31,2001
Financial Position		
Current Assets	$ 18,682	$ 6,334
Future Income Tax Asset	1,198	
Resource Properties	9,739	98,460
Total Assets	**29,619**	**104,794**
Current Liabilities	13,161	12,523
Bank Loan		23,320
Note Payable		11,515
Advances from City of Medicine Hat	25,847	
Future Income Tax Liability		7,742
Site Reclamation and Abandonment	216	2,334
Total Liabilities	39,224	57,434
Net Assets (Liabilities)	**$ (9,605)**	**$ 47,360**

Net Liabilities are comprised of retained deficit of $8,224 and deficit on Related Company Transactions of $1,381. During the period, Allied Oil & Gas Corp. disposed of gas assets for proceeds of $23,406. The resource properties had a net book value of $24,428 and a site restoration liability of $698.

	2002	2001
Results of Operations		
Revenues	$ 8,626	$ 2,178
Operating Expenses	7,852	1,383
Cash Flow from Operations	774	795
Depletion and Site Restoration	10,737	1,107
Net Loss before Income Tax	(9,963)	(312)
Income Tax Recovery (Expense)	1,477	568
Net Income (Loss)	(8,486)	256
Beginning Retained Earnings	256	
Share Capital	6	47,104
Investment (Loss) in Subsidiary	**$ (8,224)**	**$ 47,360**

During the period, the resource properties were written down to their fair market value. The write down amounted to $7,227 and forms part of the depletion and site restoration expense.

The operation of this government business enterprise has been accounted for using the modified equity method of accounting. These financial statements include the net earnings of Allied Oil & Gas Corp. since the acquisition date.

NOTE 9: ACQUISITION OF ALLIED PARTNERSHIP

As described in Note 7, on January 29, 2002, January 30, 2002 and February 1, 2002 the City acquired 100% of the Company's interest in Allied Partnership from its wholly owned subsidiary Allied Oil & Gas Corp. The following table summarizes the estimated fair carrying value of the assets and liabilities acquired:

Assets	
Treasury Bills	$ 7,600
Other Assets	38,521
Resource Properties	93,742
Total Assets	**$ 139,863**
Liabilities	
Liabilities	$ 13,363
Future Income Tax Liability	28,058
Net Assets Acquired	**$ 98,442**

As consideration Allied Oil & Gas Corp. redeemed shares in the amount of $98,442 held by the City of Medicine Hat.

NOTE 10: PREPAID EXPENSES

	2002	2001
Gas Purchase Contract with Subsidiary	$	$ 6,180
Prepaid Insurance	489	356
Prepaid Miscellaneous Expenses	275	136
Prepaid Software License Fee	7	16
TOTAL	**$ 771**	**$ 6,688**

NOTE 11: PLANT, PROPERTY, AND EQUIPMENT

	2002 Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Land	$ 13,824	$	$ 13,824	$ 13,238
Buildings	95,739	3,413	92,326	88,422
Engineering Structures	480,379	114,050	366,329	338,312
Gas and Oil Properties	469,146	230,680	238,466	155,952
Machinery, Equipment and Furnishings	34,837	8,165	26,672	26,377
Vehicles	35,418		35,418	32,481
TOTAL	**$1,129,343**	**$356,308**	**$773,035**	**$ 654,782**

In 2001 the City sold to 912212 Alberta Ltd, a wholly owned subsidiary of the City, its rights in the "Unit Agreement Medicine Hat Glauconite "C" East Unit" for an amount of $11,515.

The City also entered into an agreement in 2001 to exchange assets with Anadarko Canada Corporation. The aggregate value of assets received was $22,200 and the assets transferred from the City were $22,200.

Under Public Sector Accounting Standards Amortization and Depletion is not expensed in the financial statements, but is shown in the table below. Annual depletion and amortization amounts reflected in Plant, Property and Equipment and Equity in Physical Assets are as follows:

	2002	2001
Buildings	$ 210	$ 250
Engineering Structures	3,994	10,121
Gas and Oil Properties	26,422	21,514
Machinery, Equipment and Furnishings	613	893
TOTAL AMORTIZATION AND DEPLETION	**$ 31,239**	**$ 32,778**

NOTE 12: BANK INDEBTEDNESS

Bank indebtedness of $1,616 represents outstanding cheques in the amount of $2,416 in excess of the bank balance of $800.

NOTE 13: ACCRUED LIABILITIES

	2002	2001
Accrued Wages and Salaries	$ 2,538	$ 2,230
Vacation Pay	2,672	2,391
Accrued Interest on Long Term Debt	3,354	3,442
Deposits	789	561
Deferred Revenue	2,608	2,827
Deferred Charges	1,511	1,215
Other Payables	3,565	2,393
TOTAL	**$ 17,037**	**$ 15,059**

NOTE 14: SHORT TERM DEBT

A Municipal Revolving Line of Credit (Variable Rate Or Guaranteed Note) is available to the City up to a maximum of $65,000. Under this facility, on July 24, 2002, the City of Medicine Hat issued Guaranteed Notes with a par value of $10,000, face value of $9,984, due within one year, with an interest rate of 2.97% (market + .15%). Bylaw 3394 secures the Guaranteed Notes.

On January 20, 2003 these notes were paid in full.

NOTE 15: LONG TERM DEBT

(A)

	2002	2001
Tax Supported Debentures	$ 21,591	$ 20,735
Utilities		
- Electric	55,911	48,547
- Gas	25,219	28,125
- Water	28,229	29,977
- Sewer	11,429	6,789
- Solid Waste	1,787	1,776
	122,575	115,214
TOTAL DEBENTURE DEBT	**$ 144,166**	**$ 135,949**

(B) DEBT PER CAPITA

	2002	2001
Tax Supported Debentures	$ 421	$ 405
Utilities	2,392	2,248
TOTAL	**$ 2,813**	**$ 2,653**

(C) EXPECTED FUTURE INTEREST & PRINCIPAL PAYMENT ARE AS FOLLOWS:

	Principal	Interest
2003	$ 10,707	$ 10,260
2004	10,991	9,451
2005	10,987	8,622
2006	10,663	7,816
2007	10,771	7,066
2008-2027	90,047	35,733
TOTAL	**$ 144,166**	**$ 78,948**

The debentures mature in annual amounts to the year 2027 and interest is payable at rates ranging from 4.375% to 12.0% per annum before Provincial Subsidy, and mature in periods 2003 through 2027. The average annual interest rate is 7.74% for 2002 (7.39% for 2001). For qualifying debentures, the Province of Alberta rebates 60% of interest in excess of 8%, 9% and 11% to a maximum annual rate of 12.5% depending on the date borrowed. Debenture debt is issued on the credit and security of the City of Medicine Hat.

(D) TOTAL DEBT AND DEBT SERVICING LIMITS

The Minister of Municipal Affairs has prescribed total debt and debt servicing limits for municipalities in the province. On December 1, 2000 the City of Medicine Hat received ministerial approval to have the debt and debt servicing limits increased. The debt limit was increased to 2 times revenue from 1.5 times revenue, and the debt servicing limit was increased to .35 times revenue from .25 times revenue.

	2002	2001
Total Debt Limit	$ 432,524	$581,282
Actual Debt (Long and Short Term Debt)	154,872	155,717
AMOUNT UNDER LIMIT	**$ 277,652**	**$425,565**
Debt Servicing Limit	$ 75,692	$101,724
Actual Debt Servicing (Long and Short Term Debt)	30,968	39,961
AMOUNT UNDER LIMIT	**$ 44,724**	**$ 61,763**

NOTE 16: OTHER LONG TERM LIABILITIES

(A)

	2002	2001
Offsite Contributions	$ 2,305	$ 2,784
Gas Site Restoration & Abandonment	18,399	12,428
Sanitary Landfill - Site Restoration & Abandonment	458	452
Capital Lease		246
TOTAL OTHER LONG TERM LIABILITIES	**$ 21,162**	**$ 15,910**

(B)

The accrued liability for closure and post closure costs of the City's Landfill is recognized over the life of the cells, using the net present value of the total estimated costs of closure and post closure care, prorated on the basis of the current air space utilized, (in cubic meters) over the total estimated air space of the site. The net present value of the estimated closure and post closure costs was calculated using a rate of return equal to 5.64% assuming inflation of 1.7%.

(C)

The following summarizes the total net present value for the estimated costs of Sanitary Landfill closure and post closure care:

Estimated Closure Costs	$ 546
Estimated Post-Closure Costs	124
Estimated Total Costs	670
	(458)
BALANCE OF ESTIMATED COSTS TO ACCRUE	**$ 212**

During 2002, Alberta Environment has allowed the city to fill the Landfill above grade and this approval has added an additional 1,475,000 cubic meters of air space. The site has approximately 2,850,000 cubic meters of air space remaining. With an estimated annual utilization of 65,000 cubic meters, increasing at 3% per year, the landfill has approximately 29 years of life remaining. It is estimated that post closure care should be required for a period of 25 years. The City has not designated assets for settling closure or post closure liabilities.

NOTE 17: RESERVES

	Balance Jan 01/2002	2002 Additions	2002 Deductions	Balance Dec 31/ 2002
Employee Development	$ 640	$ 57	$	$ 697
Victim Assistance	5	6		11
Second Street Properties	267			267
Information Systems	10			10
Fleet Replacement	2,717	2,650	2,476	2,891
Infrastucture	2,751	4,059	2,083	4,727
Arts & Heritage Centre	49	15,000	49	15,000
Electric Facility & Equipment	3,070		1,085	1,985
Gas Depletion Reserve	117,191	44,459	123,029	38,621
SUB TOTAL	126,700	66,231	128,722	64,209
Equity (Deficit) in Subsidiary	255		7,104	(6,849)
Library Reserves	96		5	91
Internal Loan Contra Reserve	(21,044)	3,985	13,939	(30,998)
TOTAL RESERVES	$ 106,007	$ 70,216	$ 149,770	$ 26,453

NOTE 18: TRUST FUNDS

The City of Medicine Hat records as Funds Held in Trust all monies received on behalf of third parties. These monies are controlled, invested and accounted for in accordance with the terms of the trust arrangements. Trust investments are in temporary investments in money market instruments such as treasury bills and commercial paper. Investments are recorded at the lower of original cost or market value. The cost of these investments at December 31, 2002 is $9,786 (2001 - $16,749). Trust investments and liabilities are not included in the City's statements.

A summary of Trust fund activities by the City of Medicine Hat follows:

NOTES FOR THE YEAR ENDED DECEMBER 31, 2002
(In Thousands of Dollars)

	Balance Jan 1/2002	Additions	Interest Earnings	Reductions	Balance Dec 31/2002
TRUST FUNDS ADVANCED FROM THE PROVINCE OF ALBERTA UNDER COST SHARING AGREEMENTS					
Basic Capital	$ 5,645	$ 3,334	$ 165	$ 4,538	$ 4,606
Special Transportation	5,606		89	5,695	
Arts & Heritage Centre Grant	3,116		80		3,196
Water Distribution	1			1	
Water Intake - Power Plant	7			7	
	14,375	3,334	334	10,241	7,802
OTHER TRUSTS					
Meadowlands II	14			14	
Cemetery - Perpetual Care	1,424	82	112	195	1,423
Seniors Foundation	16	1	3	6	14
'95 Flood - Brick Mural Trust	1			1	
Police Department Exhibit Recovery	8		2		10
Museum Building Exhibition	118		3		121
Art Gallery Acquisition	12				12
Donna MacLean Museum Trusts	2		1		3
Museum Special Projects	19			5	14
Pitch Trust	1				1
Tax Forfeitures	40		1		41
Medicine Hat Senior Sport & Culture	120	3	70	56	137
2002 South Alberta Winter Games	457	6	331	733	61
2000 Alberta Summer Games	18			18	
Arts and Heritage Centre Donations	79	154	4	237	
Saamis Heights Town Ctr Park		50			50
2002 AB Winter Games Legacy Grant		50			50
Northlands Waterline Warranty	45		2		47
	2,374	346	529	1,265	1,984
TOTAL TRUST FUNDS	**$ 16,749**	**$ 3,334**	**$ 863**	**$ 11,506**	**$ 9,786**

NOTE 19: SALARY AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the chief administrative office and designated officers as required by provincial regulation 313/2000 is as follows:

	Salary	Benefits & Allowances	Total 2002	Total 2001
Mayor Vallely	$ 48	$ 28	$ 76	$ 12
Mayor Grimm				76
Councilors:				
Craven, W.	16	14	30	32
Cocks, W.	16	16	32	31
Friesen, J.	16	14	30	34
Dumanowski, R.	16	13	29	5
Hamill, J.	16	14	30	5
Roset, D.	16	14	30	5
Smith, C.	16	13	29	5
Spears, H.	16	14	30	5
Sauer, K				21
Renner, G.				27
Anderson, B.				24
Mandeville, K.				26
Kelly, G.				26
Chief Administrative Officer	151	45	196	174
Designated Officers (4)	471	51	522	481

(1) Salary includes regular base pay.

(2) Benefits and Allowances includes employer's share of all employee benefits and contributions or payments made on behalf of employees including retirement pension, Canada Pension Plan, Employment Insurance, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, expense allowances, car allowances, per diem payments, gross honoraria, travel and professional memberships and tuitions. Benefits and allowances for the CAO include an amount to compensate for his dual role as Commissioner of Utilities Services.

NOTE 20: LOCAL AUTHORITIES PENSION PLAN

Employees of the City of Medicine Hat, with the exception of Police Officers, participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the *Public Sector Pension Plans Act*. LAPP serves about 133,000 people and 389 employers. The Police Officers are members of the Special Forces Pension Plan (SFPP). The Plans are financed by employer and employee contributions and investment earnings of the LAPP and SFPP Fund.

The City of Medicine Hat is required to make current service contributions to the Local Authorities Pension Plan of 5.025% of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 6.9% for the excess. With regard to the Special Forces Pension Plan, the City of Medicine Hat is required to make current service contributions of 9.8%.

Total current service contributions by the City of Medicine Hat to LAPP and SFPP in 2002 were $2,416 (2001 – $2,295). Total current service contributions by the employees for 2002 were $2,101 (2001 – $1,912).

At December 31, 2001 LAPP disclosed an actuarial surplus of $634,960.

At December 31, 2000 SFPP disclosed an actuarial deficit of $68,528.

NOTE 21: OPERATING FUND

The Operating Fund balance as shown on the Consolidated Statement of Financial Position represents accumulated surpluses (deficits) from operations, which have not been designated by City Council for any specific use.

The General Fund policy directs that, special one-time grants and any surplus in the General Operating Fund not required in order to maintain the operating fund target balance of 7% of prior years budgeted gross expenditures be transferred to the Infrastructure Reserve. The 2002 transfer to the Infrastructure Reserve of $4,059 is comprised of the budgeted transfer of $2,530 and $1,529 in surplus funds, which were in excess of the target balance requirement

The Electric Operating Fund policy directs that surplus in excess of 7% of prior years budgeted gross expenditures will be transferred to the Electric Facility and Equipment Reserve at the end of the current year. In 2002 the Electric Utility did not have enough surplus to meet its target balance.

With respect to the Gas Utility, policy directs that surplus in excess of 7% of prior years budgeted gross expenditures be transferred to the Gas Depletion Reserve at the end of the current year. In 2002 the Gas Utility reported an excess surplus of $37,690, which was transferred to the Gas Depletion Reserve.

NOTE 22: OPERATING COMMITMENTS

The City of Medicine Hat is committed to purchase natural gas and electrical energy under existing purchase contracts. The commitment for 2003 is $2,013 (Gas) and $6,893 (Electric).

The City of Medicine Hat is also committed to the lease of office space as a result of the Allied Oil & Gas Corp. acquisition, with the estimated minimum annual payment as follows:

YEAR	AMOUNT
2003	$245
2004	$144
2005	$126

In addition to the lease agreements the City also acquired various sublease agreements with estimated minimum annual receipts as follows:

YEAR	AMOUNT
2003	$102

NOTE 23: CAPITAL COMMITMENTS

(A) 2002 CAPITAL BUDGET

Following guidelines set out by the Public Sector Accounting Board, the budget reported on the Consolidated Statement of Financial Activities and Consolidated Capital Fund is the 2002 approved Capital Budget. The actual expenditures reported include incomplete capital projects in the amount of $30,393 carried forward from previous budget years, as well as costs related to the 2002 Budget.

(B) INCOMPLETE CAPITAL PROJECTS

As at December 31, 2002 a number of capital projects were in progress and will be completed in 2003 or subsequent years. The unexpended appropriation related to these projects is $54,220. Major projects included in this total are; Subdivision Development - $11,686, Municipal Works projects - $7,689, Arts and Heritage Centre - $27,720 and South Ridge Recreation Complex - $2,500.

(C) 2003 CAPITAL IMPROVEMENT PLAN

In September 2002, City Council approved the 2003-2005 Utilities Capital Improvement Plan. Subsequent to December 31, 2002, City Council approved the 2003 - 2005 General Government Capital Improvement Plan. The total for all Projects is as follows:

2003	$ 183,070
2004/2005 Projections	146,957
TOTAL	**$ 330,027**

Financing sources identified for 2003 projects are:

Government Grants	$ 469
Current Revenues	14,447
Tax Supported	1,287
Utilities	5,725
Reserves	158,305
Direct Charges & Other	2,837
TOTAL	**$ 183,070**

NOTE 24: CONTINGENT LIABILITIES

Various claims have been made against the City as at December 31, 2002. While it is impossible to determine the ultimate liability, if any, with respect to these claims, the City Solicitor does not believe that these claims will have a materially adverse effect on the financial position of the City in any given year, with the following possible exception.

The City has been named as a third party in lawsuits filed by seven workers who are claiming they were harmed by workplace exposure to methanol. The City is disputing the claims, and as the quantum and outcome of the lawsuits are not determinable at this time, no amount has been accrued in the financial statements.

NOTE 25: FINANCIAL INSTRUMENTS

The City as part of its operations carries a number of financial instruments. It is management's opinion that the City is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as otherwise disclosed. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

NOTE 26: STATEMENT OF CHANGES IN FINANCIAL POSITION

Interest on long-term debt paid in 2002 was $9,931 (2001 $12,276).

NOTE 27: COMPARATIVE FIGURES

Comparative figures have been restated, where necessary, to conform to the current year presentation.

Medicine Hat
The Gas City

Financial & Statistical Highlights

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)

FOR THE YEARS ENDED DECEMBER 31, 1998 - 2002

(In Thousands of Dollars)

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

	2002	2001	2000	1999	1998
REVENUES BY SOURCE					
Net Taxes	$ 21,605	$ 19,364	$ 19,257	$ 17,134	$ 15,870
Sale of Services					
General Government	5,177	4,674	4,194	3,576	3,967
Gas	96,188	112,707	93,036	66,573	41,744
Electric	47,778	74,475	101,268	47,646	39,405
Water	6,568	7,187	6,906	5,776	5,643
Sewer	5,561	5,261	5,243	4,791	4,456
Solid Waste	4,576	3,903	3,248	2,871	2,936
Land & Subdivision Dev	15,050	11,183	5,748	8,280	9,349
Public Library	86	87	94	108	147
Investment Income	5,338	5,292	3,690	2,585	2,626
Income (Loss) from Subsidiary	(8,485)	256			
Licenses, Fines & Penalties	3,570	3,186	2,742	2,421	2,984
Insurance Recovery	100	102	1,050	111	84
Developers Levies	1,994	1,381	2,000	1,258	1,554
Proceeds from Sale of Assets		33,715			
Other	6,011	4,423	7,772	4,909	3,314
Government Grants	16,012	6,379	5,195	5,513	7,146
TOTAL REVENUES	227,129	293,576	261,443	173,552	141,225
EXPENDITURES BY FUNCTION					
General Government	82,010	62,101	59,107	61,162	55,332
Gas	151,116	105,174	89,207	93,631	53,149
Electric	43,216	46,304	25,996	22,337	60,045
Water	4,559	6,379	5,875	10,190	10,828
Sewer	9,088	7,739	5,491	5,354	4,068
Solid Waste	3,068	2,833	3,989	2,835	2,866
Land	3,810	2,759	1,397	1,827	2,730
Medicine Hat Public Library	1,620	1,417	1,363	1,454	1,264
TOTAL EXPENDITURES	298,487	234,706	192,425	198,790	190,282
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(71,358)	58,870	69,018	(25,238)	(49,057)
Debt Issued	18,922	7,831	3,912	43,445	44,928
Debt Repayment	(10,704)	(36,995)	(15,346)	(11,772)	(9,625)
Contributed Surplus	1,381				
CHANGE IN FUND BALANCES	**$ (61,759)**	**$ 29,706**	**$ 57,584**	**$ 6,435**	**$ (13,754)**

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)

FOR THE YEARS ENDED DECEMBER 31, 1998 - 2002

(In Thousands of Dollars)

CONSOLIDATED EXPENDITURE BY OBJECT

	2002	2001	2000	1999	1998
Salaries, Wages & Benefits	$ 56,688	$ 52,711	$ 49,418	$ 45,936	$ 42,279
Contracted & General Services	19,268	17,102	14,646	14,557	12,303
Materials, Goods & Utilities	31,178	39,176	37,001	22,061	19,223
Provisions for Allowances	404	282	250	397	266
Bank Charges & Short Term Interest	927	106	80	52	21
Interest on Long Term Debt	9,856	10,862	12,898	13,825	11,828
Physical Assets Acquired	164,538	94,503	59,609	86,070	92,165
Other Operating Expenditures	13,551	18,302	17,283	13,151	9,845
Other Capital Expenditures	2,077	1,662	1,240	741	2,352
TOTAL EXPENDITURES	**$ 298,487**	**$ 234,706**	**$ 192,425**	**$ 198,790**	**$ 190,282**

CONSOLIDATED SCHEDULE OF CAPITAL FINANCING & EXPENDITURES

	2002	2001	2000	1999	1998
REVENUES					
Government Transfers	$ 12,598	$ 2,786	$ 1,931	$ 2,374	$ 3,568
Developers Levies	1,990	1,381	2,000	1,259	1,554
Proceeds from Sale of Assets		33,715			
Other	1,179	1,023	846	665	1,746
Reserves	123,660	51,379	17,128	14,213	24,397
Operations	16,483	(560)	36,227	27,666	18,568
Debt	18,922	7,831	3,912	43,445	44,928
TOTAL FINANCING	174,832	97,555	62,044	89,622	94,859
EXPENDITURES					
Engineering Structures	152,804	86,234	43,625	68,693	77,857
Buildings	4,955	2,587	3,151	10,526	6,299
Machinery & Equipment	2,090	1,797	8,498	4,788	2,812
Land	581	1,427	135	241	74
Mobile Equipment	4,298	2,344	3,647	3,821	3,063
Non - Asset Increasing	1,889	1,776	1,784	741	2,411
TOTAL EXPENDITURES	166,617	96,165	60,840	88,810	94,516
SURPLUS	**$ 8,215**	**$ 1,390**	**$ 1,204**	**$ 812**	**$ 343**

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)

FOR THE YEARS ENDED DECEMBER 31, 1998 - 2002

(In Thousands of Dollars)

SUMMARY OF OPERATING AND RESERVE FUND BALANCES

OPERATING FUNDS	2002	2001	2000	1999	1998
General	$ 5,145	$ 4,631	$ 4,541	$ 5,252	$ 6,100
Gas	4,804	4,384	3,718	3,161	3,215
Electric	4,185	3,789	3,109	4,719	3,003
Water	(344)	329	(443)	(957)	(389)
Sewer	(5)	263	1,108	426	339
Solid Waste	721	497	231	366	440
Land & Subdivision Development	19,886	10,920	6,061	7,349	16,399
TOTAL OPERATING FUNDS	34,392	24,812	18,325	20,316	29,107
RESERVE FUNDS					
Cultural Centre				43	45
Arts & Heritage Centre	15,000	49	49		
Employee Development	697	640	398	220	250
ALET					
Victim Assistance	11	5	13	12	12
RRAP				27	27
Major Leisure Facility Infrastructure	4,727	2,751	4,175		
Second Street Properties	267	267	335	335	335
Information Systems	10	10	10	10	10
Fleet Replacement	2,991	2,717	769	1,273	1,780
Gas Depletion	38,621	117,191	64,489	49,993	34,817
Electric Debt Retirement			20,444		
Electric Facilities and Equipment	1,985	3,070			
Incomplete Capital					1,874
SUB TOTAL RESERVES	64,209	126,700	90,682	51,913	39,150
Equity (Deficit) in Subsidiary	(6,849)	256			
Library Reserve	91	111	95	103	108
Internal Loan Contra Reserve	(30,998)	(21,059)	(6,599)	(26,209)	(26,012)
Pension Liability Contra					(370)
TOTAL RESERVES	26,453	106,007	84,178	25,807	12,876
TOTAL RESERVES & SURPLUS	$ 60,845	$ 130,819	$ 102,503	$ 46,123	$ 41,983

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)

FOR THE YEARS ENDED DECEMBER 31, 1998 - 2001

TAXATION & ASSESSMENT

MILL RATES

	2002	2001	2000	1999	1998
MUNICIPAL					
Single Family	5.164	5.508	5.508	5.508	5.308
Apartments	6.070	7.713	7.713	7.713	7.433
Farmland	10.133	9.779	9.779	9.779	9.425
Commercial & Industrial	11.932	11.881	11.881	11.881	11.450
EDUCATION					
Single Family	4.674	5.251	6.400	6.817	7.193
Apartments	4.674	5.251	6.400	6.817	7.193
Farmland	4.674	5.251	6.400	6.817	7.193
Commercial & Industrial	7.580	7.643	9.116	9.531	10.043
OTHER					
Single Family	0.066	0.067	0.065	0.069	0.032
Apartments	0.066	0.067	0.065	0.069	0.032
Farmland	0.066	0.067	0.065	0.069	0.032
Commercial & Industrial	0.066	0.067	0.065	0.069	0.032

PROPERTY TAXES LEVIED

(In Thousands of Dollars)

	2002	2001	2000	1999	1998
PROPERTY TAX LEVY					
Municipal	$ 21,805	$ 19,364	$ 19,257	$ 17,134	$ 15,870
Education	16,135	15,727	18,570	18,221	17,594
Other	206	183	172	164	71
TOTAL REAL PROPERTY	37,946	35,274	37,999	35,519	33,535
Business Exchange Levies	94	96	89	131	100
TOTAL TAXES LEVIED	**$ 38,040**	**$ 35,370**	**$ 38,088**	**$ 35,650**	**$ 33,635**
Current Taxes Collected		34,952	37,603	35,131	33,244
%of Current Taxes Collected	0.00%	98.82%	98.73%	98.54%	98.84%

OTHER MAJOR TAXES LEVIES	2002	2001	2000	1999	1998
Linear Property Taxes	$ 2,668	$ 2,494	$ 3,329	$ 2,403	$ 2,391
Government Grants in Lieu of Property Taxes	1,184	1,111	1,203	1,234	1,782
TOTAL MAJOR TAX LEVIES	**$ 3,852**	**$ 3,605**	**$ 4,531**	**$ 3,637**	**$ 4,173**

ASSESSED VALUE FOR GENERAL MUNICIPAL PURPOSES

	2002	2001	2000	1999	1998
Residential	$ 2,303,154,816	$ 1,992,021,650	$ 1,888,145,000	$ 1,718,996,510	$ 1,587,818,020
Multi-Family	128,151,634	94,251,120	93,464,920	81,484,035	78,946,656
Farmland	4,980,057	4,822,280	5,313,060	4,508,930	3,982,730
Commercial & Industrial	698,890,212	639,557,630	650,206,380	603,482,181	565,068,644
TOTAL TAXABLE ASSESSMENT	**$ 3,135,176,721**	**$ 2,730,652,680**	**$ 2,637,129,360**	**$ 2,408,471,656**	**$ 2,215,816,050**

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)

FOR THE YEARS ENDED DECEMBER 31, 1998 - 2002

(In Thousands of Dollars)

LONG TERM DEBT

LONG TERM DEBT	2002	2001	2000	1999	1998
Debt Supported by Taxes	$ 21,591	$ 20,735	$ 20,869	$ 22,140	$ 22,496
Debt Supported by Utilities	122,575	115,214	144,234	154,389	122,353
TOTAL DEBT	**$ 144,166**	**$ 135,949**	**$ 165,103**	**$ 176,529**	**$ 144,849**

DEBT PER CAPITA	2002	2001	2000	1999	1998
Tax Supported	$ 421	$ 405	$ 416	$ 441	$ 490
Utility Supported	2,392	2,248	2,875	3,078	2,666
TOTAL DEBT PER CAPITA	**$ 2,813**	**$ 2,653**	**$ 3,291**	**$ 3,519**	**$ 3,156**

LONG TERM DEBT CHARGES AS A % OF TOTAL EXPENDITURES	2002	2001	2000	1999	1998
Debt Charges	$ 20,560	$ 47,657 *	$ 28,244	$ 25,597	$ 23,922
Total Operating Expenditures	131,870	138,541	131,586	109,980	95,766
PERCENTAGE	**15.59%**	**34.54%**	**21.46%**	**23.27%**	**24.98%**

LEGAL DEBT LIMIT	2002	2001	2000	1999	1998
Total Debt Limit	$ 432,524	$ 581,282	$ 522,700 **	$ 260,328	$ 229,405
Actual Debt (Long and Short Term Debt)	154,872	155,717	165,103	176,529	144,849
AMOUNT UNDER LIMIT	**$ 277,652**	**$ 425,565**	**$ 357,597**	**$ 83,799**	**$ 84,556**
Percentage Used	35.81%	26.79%	31.59%	67.81%	63.14%

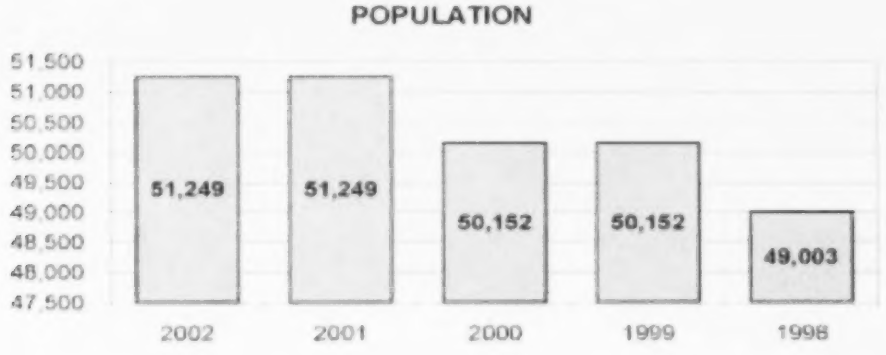
DEBT SERVICING LIMIT	2002	2001	2000	1999	1998
Debt Servicing Limit	$ 75,692	$ 101,724	$ 91,473 **	$ 43,388	$ 38,234
Actual Debt Servicing	30,968	39,961	28,221	28,740	23,922
AMOUNT UNDER LIMIT	**$ 44,724**	**$ 61,763**	**$ 63,252**	**$ 14,648**	**$ 14,312**
Percentage Used	40.91%	39.28%	30.85%	66.24%	62.57%

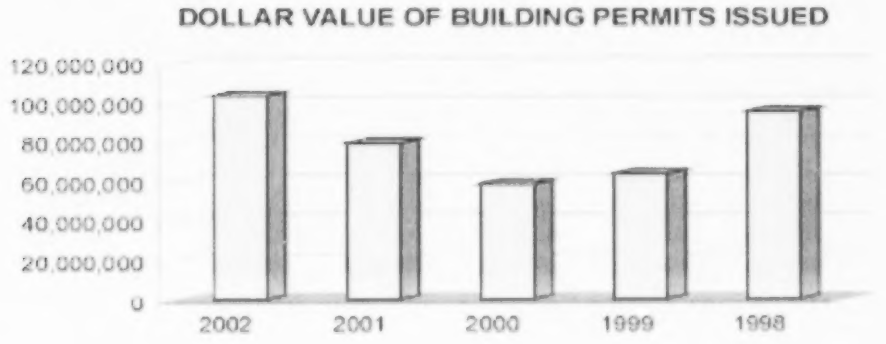
* During 2001, $20,444 in long term debt was retired before maturity date.

** On December 1,2000 the City of Medicine Hat received Ministerial Approval to have the debt limits increased to 2 times revenue from 1.5 times revenue. 2000 and 2001 reflect this change.

FINANCIAL & STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 1998 - 2002

DEMOGRAPHICS & OTHER INFORMATION

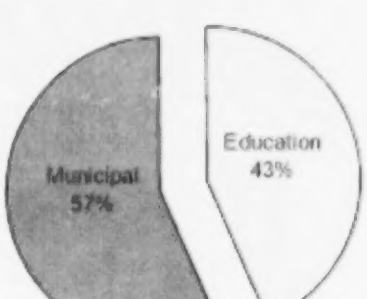




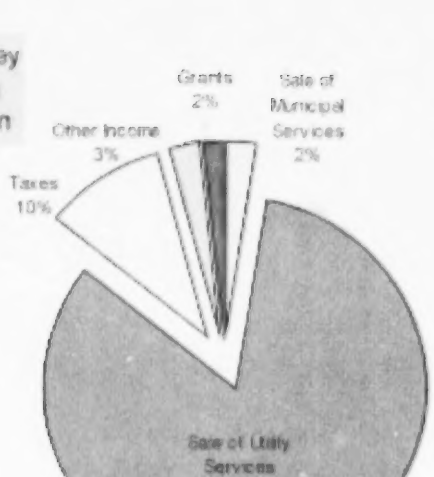
OTHER

	2002	2001	2000	1999
Area, square Kilometers	120.2	120.2	120.2	120.2
Km of Wastewater Mains	349	356	352	343
Km of Water Mains	381	376	372	361
KM of Storm Drainage Mains	190	171	169	166

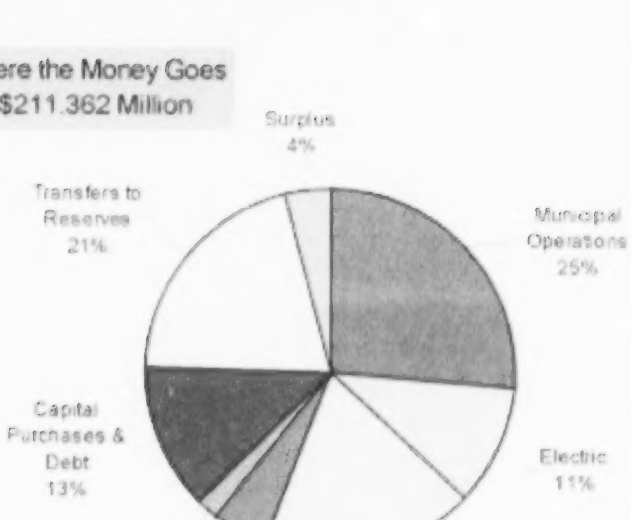
Where our tax dollars went in 2002 Education/ Municipal Property Tax



Where the Money Comes From
$211.362 Million



Where the Money Goes
$211.362 Million



Medicine Hat
The Gas City

Financial Comparison 2002,2001,2000,1999

Consolidated Balance Sheet
(in Thousands of Dollars)

Assets	2002	2001	2000	1999
Cash & Investments	55,084	93,386	89,808	40,355
Investment in Subsidiary		47,360		
Advances to Subsidiary	31,000			
Accounts Receivable	31,755	21,537	35,059	19,188
Inventory & Supplies	8,669	11,081	10,097	9,533
Land Inventory	19,045	15,838	14,541	13,845
Other Assets	1,164	1,136	538	1,856
Prepaid Expenses	771	6,688	1,205	
Capital Assets	773,036	654,782	629,041	652,048
	920,752	851,620	780,289	736,825

Liabilities	2002	2001	2000	1999
Payables	16,773	10,010	12,077	10,873
Accrued Liabilities	17,037	15,058	18,179	14,310
Short-Term Debt	9,984	19,809		
Long-Term Debt	144,166	135,949	165,103	176,792
Other Long-Term Liabilities	21,162	15,910	13,657	10,588
	209,122	196,737	210,016	212,563
Loss in Subsidiary	8,224			
Equity				
Equity in Capital Assets	642,561	524,064	467,770	478,139
Surplus & Reserves	60,845	130,819	102,503	46,123
	703,406	654,883	570,273	524,262
	920,752	851,620	780,289	736,825

Operating Revenue and Expenditures
(in thousands of dollars)

Revenue From:	2002	2001	2000	1999
Taxes	37,647	35,370	36,088	35,650
Less - Education Requisitions	(16,342)	(16,006)	(16,831)	(16,516)
	21,805	19,364	19,257	17,134
Sale of Services				
General Government	5,177	4,674	4,194	3,576
Electric	47,778	74,475	83,036	47,646
Gas	96,188	112,707	101,268	66,573
Environmental Utilities	16,705	16,351	15,397	13,438
Land	15,050	11,153	5,748	8,280
MH Public Library	86	87	94	111
Other Income				
Investment Income	5,336	5,292	3,690	2,581
Investment Loss in Subsidiary	(8,465)	256		
Licenses,Fines & Penalties	3,570	3,199	2,742	2,421
Other	4,859	3,503	7,977	4,354
Senior Government Transfers	3,411	3,593	3,264	3,140
Surplus			1,991	8,706
	211,362	254,671	256,656	177,960

Spent On:	2002	2001	2000	1999
General Government	54,210	50,077	45,977	37,385
Electric	22,807	24,734	21,553	18,798
Gas	39,566	49,501	52,159	39,886
Environmental Utilities	10,056	10,270	9,766	10,964
Land	3,926	2,758	961	1,827
MH Public Library	1,305	1,201	1,160	1,120
Capital Purchase & Debt	27,187	35,435	51,573	39,435
Transfer To Reserves	44,106	73,206	75,499	28,542
Surplus	8,199	6,487		
	211,362	254,671	258,656	177,960

Medicine Hat
The Gas City

For copies or questions
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Internet: www.medicinehat.ca

Thank you to all the employees who agreed to participate in the photo montages for the 2002 Annual Report.